

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**BECAUSE OF POOR MANAGEMENT CONTROLS,
THE OAKLAND UNIFIED SCHOOL DISTRICT
IS NOT ADEQUATELY PROTECTING ITS ASSETS**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-931.1

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Acting Auditor General

January 24, 1990

F-931.1

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the management of the Oakland Unified School District. Specifically, the district has poor management practices and does not adequately protect its assets.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kurt R. Sjoberg".

KURT R. SJOBERG
Acting Auditor General

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	S-1
INTRODUCTION	1
AUDIT RESULTS	
I THE OAKLAND UNIFIED SCHOOL DISTRICT DOES NOT ADEQUATELY CONTROL ITS PAYROLL	11
THE DISTRICT ISSUES PAYROLL WARRANTS WITHOUT PROPER APPROVAL	12
THE DISTRICT DOES NOT EXERCISE ADEQUATE CONTROL OVER ABSENCE REPORTING AND LEAVE ACCUMULATION	15
THE DISTRICT HAS INADEQUATE CONTROLS OVER PREAUTHORIZING AND PAYING FOR OVERTIME	21
THE DISTRICT FREQUENTLY MISCALCULATES SALARY ADJUSTMENTS FOR STAFF REASSIGNMENTS	23
THE DISTRICT DOES NOT EXERCISE ADEQUATE CONTROL OVER RETROACTIVE SALARY INCREASES	24
DISTRICT EMPLOYEES CIRCUMVENTED CONTROLS OVER PAYROLL	26
THE DISTRICT DOES NOT ADEQUATELY SEPARATE THE DUTIES RELATED TO PAYROLL	27
CONCLUSION	28
RECOMMENDATIONS	29

TABLE OF CONTENTS (Continued)

	<u>Page</u>
II THE OAKLAND UNIFIED SCHOOL DISTRICT HAS POOR PERSONNEL MANAGEMENT PRACTICES	33
THE DISTRICT SOMETIMES HIRES PREVIOUSLY CONVICTED INDIVIDUALS FOR POSITIONS THAT REQUIRE A HIGH LEVEL OF TRUST	34
THE DISTRICT DOES NOT ALWAYS FOLLOW ITS OWN PERSONNEL POLICIES WHEN SETTING COMPENSATION FOR ADMINISTRATORS	38
THE DISTRICT'S CONTRACTS WITH ITS HIGH-LEVEL ADMINISTRATORS DO NOT ADDRESS WHETHER THEY ARE ENTITLED TO LEAVE OTHER THAN VACATION	40
THE DISTRICT GRANTS ITS HIGH-LEVEL ADMINISTRATORS COMPENSATORY TIME OFF FOR ATTENDING MEETINGS AND OTHER FUNCTIONS	41
THE DISTRICT DID NOT FOLLOW ITS OWN POLICIES AND PROCEDURES FOR GRANTING SABBATICAL LEAVE	42
THE DISTRICT DOES NOT ALWAYS FOLLOW NECESSARY PROCEDURES FOR REASSIGNING CERTIFICATED EMPLOYEES	44
THE DISTRICT GRANTS SOME ADMINISTRATORS DOCTORAL STIPENDS ALTHOUGH IT HAS NO EVIDENCE THAT THE ADMINISTRATORS ARE ENTITLED TO RECEIVE THEM	46
CONCLUSION	52
RECOMMENDATIONS	53

TABLE OF CONTENTS (Continued)

	<u>Page</u>
III THE OAKLAND UNIFIED SCHOOL DISTRICT DOES NOT SAFEGUARD ITS ASSETS	55
THE DISTRICT DOES NOT LIMIT ACCESS TO KEYS THAT OPEN DISTRICT FACILITIES	55
THE DISTRICT DOES NOT STORE ALL OF ITS INVENTORY IN SECURE AREAS	58
THE DISTRICT DOES NOT PHYSICALLY INVENTORY ITS ASSETS REGULARLY	59
THE DISTRICT HAS INADEQUATE CONTROL OVER ITS SURPLUS EQUIPMENT	60
CONCLUSION	61
RECOMMENDATIONS	62
IV THE OAKLAND UNIFIED SCHOOL DISTRICT EXERCISES LITTLE OVERSIGHT OVER ITS CONTRACTS AND PAYMENTS FOR SERVICES	65
THE DISTRICT'S CONSULTANT CONTRACTING PRACTICES ARE VERY WEAK	66
THE DISTRICT EXERCISES LITTLE CONTROL OVER PAYMENTS TO CONSULTANTS	68
THE DISTRICT'S STEPS TO IMPROVE ITS CONTRACTING PRACTICES	84
CONCLUSION	84
RECOMMENDATIONS	85

TABLE OF CONTENTS (Continued)

	<u>Page</u>
V THE OAKLAND UNIFIED SCHOOL DISTRICT COMPLIES WITH SOME ADDITIONAL STATE REQUIREMENTS BUT NOT WITH OTHERS	89
THE DISTRICT APPEARS TO COMPLY WITH RESTRICTIONS ON THE NUMBER OF ADMINISTRATORS IT EMPLOYS	90
THE DISTRICT DOES NOT COMPLY WITH ALL STATE LAWS GOVERNING THE DISPOSAL OF SURPLUS REAL PROPERTY	90
THE DISTRICT DOES NOT COMPLY WITH STATE REQUIREMENTS FOR REPORTING STUDENT ATTENDANCE	94
THE DISTRICT DOES NOT ENSURE THAT ITS EMPLOYEES FILE STATEMENTS OF ECONOMIC INTEREST	97
CONCLUSION	98
RECOMMENDATION	99
RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT	
OAKLAND UNIFIED SCHOOL DISTRICT	101
THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS ON THE RESPONSE FROM THE OAKLAND UNIFIED SCHOOL DISTRICT	113

SUMMARY

RESULTS IN BRIEF

Because the Oakland Unified School District (district) has poor management practices, it is not adequately protecting its assets. During the course of our review, we noted the following conditions resulting from this poor management:

- As a result of poor controls over payroll, the district paid employees over \$62,000 more than they were entitled to receive;
- As a result of inadequate personnel management practices, the district has allowed itself to be vulnerable to theft and has paid over \$124,000 to employees unnecessarily;
- District employees are known to have stolen approximately \$30,000 in equipment and materials from the district;
- The district lost over \$9,200 in additional equipment and materials from September 19, 1988, to September 29, 1989;
- Because it did not award its contracts prudently, the district paid over \$160,000 more for consulting services than it needed to;
- The district paid over \$140,000 for consulting contracts but has no evidence that the work was actually performed;
- The district paid \$2,000 to an employee as a contractor to perform duties that were already included in his job description;
- The district did not afford the community the appropriate opportunities to participate in decisions regarding the use of public property;

- Because the district does not comply with all state requirements for reporting its student attendance, it may not be receiving all the funds it is entitled to receive from the State, has suffered delays in receiving funds from the State, and has lost over \$65,000 in interest that it could have earned if it had amended its attendance reports promptly; and
- Because the district does not comply with state requirements that it ensure that designated employees file statements of their economic interests in assets or businesses, district employees could approve expenditures that they have a personal interest in, and the district would not be aware of the potential conflict of interest.

BACKGROUND

During the 1988-89 school year, the district was the sixth largest in California, with an average daily attendance of approximately 53,000 pupils and approximately 6,900 employees. In fiscal year 1988-89, the district had a general fund operating budget of approximately \$206 million. The district is administered by a superintendent in accordance with policies approved by the district's seven-member board of education (board). From December 1988 until January 1990, a series of superintendents directed the district's operations. On November 27, 1989, the district appointed an interim superintendent for a two-year term beginning January 1, 1990, because it was unable to find any acceptable candidates to serve as a permanent superintendent. Effective November 27, 1989, as mandated by Assembly Bill 2525, the state superintendent of public instruction appointed a trustee to advise the district on its fiscal operations.

PRINCIPAL FINDINGS

The District Does Not Adequately Control Its Payroll

The district is not exercising adequate management control over its payroll. Specifically, contrary to good internal control practices and other requirements, the district issues payroll warrants without proper approval. For example, although 119 (17 percent) of the 699 time sheets we reviewed had not been properly signed by the employee, the employee's supervisor, or both, the district issued payroll warrants to the employees. In addition, the district issued payroll warrants to employees without properly signed absence reports to indicate that the employees' absences were authorized and without evidence that employees had sufficient leave to cover their absences. Further, the district paid one employee approximately \$1,000 for time that he claimed to be ill but during which he was actually in police custody.

Furthermore, the district paid two employees \$1,268 in overtime payments for time that they did not work. Moreover, the district erroneously calculated three payroll adjustments, resulting in overpayments totaling \$2,630 to two employees and an underpayment of \$1,030 to another employee. Also, the district overpaid at least 196 administrators when it implemented a retroactive salary increase in 1988. Additionally, some employees circumvented the district's controls over payroll, and the district has not always held these employees liable. For example, one employee falsified her time sheets but still received her pay. Further, the district does not adequately separate the duties related to payroll. As a result of these weaknesses, the district has no assurance that employees have worked the time for which they are paid, and the district paid its employees over \$62,000 more than they were entitled to receive.

The District Has Poor Personnel Management Practices

The district exercises inadequate control over the hiring of personnel and gives some employees preferential treatment. Specifically, until December 28, 1989, the district employed at least one individual who has been convicted of a controlled substance offense and sometimes hires individuals who have been convicted of theft and burglary and assigns them to positions that require a high degree of trust.

In addition, the district does not follow its own policies and procedures when compensating and reassigning employees, when granting sabbatical leaves, and when granting doctoral stipends. Moreover, contrary to good contracting practices, the district's contracts with its high-level administrators do not address whether they are entitled to any leave other than vacation, and the district grants personal leave, sick leave, and other types of leave without board approval. As a result of these poor personnel management practices, the district may have allowed its students to be exposed to drugs, has allowed itself to be vulnerable to theft, and has paid over \$124,000 to six administrators unnecessarily. It appears that at least some of these employees have received preferential treatment.

The District Does Not Safeguard Its Assets

Contrary to good internal controls and its own policies, the district does not limit access to keys that open the district's facilities, does not store all of its building materials in secure areas, and does not physically inventory its assets regularly. As a result of these weaknesses, a district employee is known to have stolen approximately \$30,000 in equipment and materials. Also, the district has lost over \$9,200 in additional equipment and materials from September 19, 1988, to September 29, 1989. Furthermore, the district

does not maintain adequate control over its surplus equipment and so continues to be susceptible to theft.

The District Exercises Little Oversight Over Its Contracts and Payments for Services

The district does not follow prudent management practices and its own controls over contracting. Specifically, the district does not always award its consulting contracts prudently, does not follow its policy for setting contractors' rates of pay, and enters into contracts without proper approval. As a result of not awarding its contracts prudently, the district spent over \$160,000 more than it needed to for one consulting contract.

In addition, the district exercises little control over its payments to consultants. Specifically, the accounts payable unit pays consultants without proper certification that the district has received services and allows unauthorized personnel to authorize payments. As a result, the district's accounts payable unit paid \$43,700 to three consultants without proper certification that the district had received the services. Furthermore, the district paid over \$140,000 for services that it has no assurance it received and may be allowing employees to fraudulently authorize payments.

Moreover, in one case, the district did not comply with requirements that it report to the State Teachers' Retirement System any payments that it makes to retirees with whom it contracts, and it may have erroneously paid an individual as an independent contractor and not an employee in at least its most recent of five contracts with him. As a result, it may be liable for a penalty of 100 percent of the individual's tax on his earnings from this contract. Finally, the district paid one employee \$2,000 as a consultant although he provided consulting services that were already included in his job description. According to the interim business manager, the district is developing a new administrative bulletin that

will provide policies and procedures for contract negotiations, required contract provisions, and signatures. The district plans to complete this bulletin by March 14, 1990.

The District Complies With Some Additional State Requirements but Not With Others

The district appears to comply with state restrictions on the number of administrators it can have in proportion to the number of teachers it has. Although the district also appears to comply with some of the state requirements for disposing of its surplus real property, it did not afford the community the appropriate opportunities to participate in decisions regarding the use of public property, as required by state law. In addition, the district does not comply with all state requirements for reporting its student attendance. As a result, the district may not be receiving all the funds it is entitled to receive, has suffered delays in receiving funds from the State, and has lost over \$65,000 that it could have earned in interest. Finally, the district does not ensure that its employees file required statements of economic interest. As a result, the district's employees could be approving expenditures that they have a financial interest in, and the district would not be aware of the potential conflict of interest.

RECOMMENDATIONS

To safeguard all its assets, the district needs to improve its management controls and practices. Specifically, the district should take the following actions:

- Establish stronger controls over time sheets, absence reports, leave accounting, and retroactive salary increases and hold employees who circumvent controls over payroll liable;

- Exercise due diligence to ensure that it does not employ individuals who have been convicted of certain sex offenses or controlled substance offenses;
- Establish a policy to hire only trustworthy individuals for positions requiring a high level of trust;
- Adhere to its personnel policies and procedures for setting compensation, granting sabbaticals, reassigning employees, and granting doctoral stipends;
- Consider assigning responsibility for granting credit toward doctoral stipends to a committee composed of certificated employees;
- Improve its employment contracts with its high-level administrators;
- Limit access to district facilities and assets to as few trustworthy individuals as possible;
- Take a physical inventory of its assets annually and strengthen controls over surplus equipment;
- Adhere to its policies and good internal controls for awarding contracts and compensating consultants; and
- Comply with state laws and other requirements governing the disposition of surplus real property, the reporting of student attendance, and the filing of statements of economic interest.

Further, to ensure that the district contracts with qualified consultants at reasonable costs, the Legislature should consider enacting laws to require school districts to obtain competitive bids when awarding consultant contracts when such services are widely available. In addition, the district should develop its own procedures to ensure that consultant contracts are awarded to those contractors who are qualified to provide the best service at a competitive cost.

AGENCY COMMENTS

The Oakland Unified School District generally agrees with our conclusions and has outlined steps it will take to correct the management deficiencies that we have identified.

INTRODUCTION

The Oakland Unified School District (district) is administered by a superintendent in accordance with policies approved by the district's seven-member board of education (board). The board members, elected officials, serving staggered four-year terms, appoint the superintendent, who is responsible for preparing and submitting to the board a budget for each fiscal year. Since December 1988, a number of individuals have acted as superintendent and directed the district's operations. After Superintendent Coto left the district on December 7, 1988, the district contracted with Edna Washington to be interim superintendent. However, she has been absent from the district since August 10, 1989. In August 1989, the interim deputy superintendent, Carolyn Getridge, began acting as superintendent. On November 20, 1989, the district contracted with Vera Pitts as interim superintendent. Finally, on November 27, 1989, the district appointed Richard Peter Mesa as superintendent for a two-year term beginning January 1, 1990, because it was unable to hire an acceptable candidate to serve as a permanent superintendent.

During the 1988-89 school year, the district was the sixth largest in California, with an average daily attendance of approximately 53,000 pupils. (School years run from July 1 in a year through June 30 of the following year.) During the same school year, the district operated 59 elementary schools, 16 middle and junior high

schools, and 11 senior high and vocational education schools. The district also maintained 20 child development centers, 4 opportunity schools and centers for redirection, and 4 adult education schools. The district currently employs approximately 6,900 people. In fiscal year 1988-89, the district had a general fund operating budget of approximately \$206 million. On September 13, 1989, the board adopted the district's budget for fiscal year 1989-90, which projected general fund expenditures of approximately \$206 million.

The Alameda County superintendent of schools (county superintendent) reviews and approves the district's final budget each year. However, on October 31, 1989, the county superintendent rejected the district's budget because, among other things, it included approximately \$10 million in revenues from a \$13.5 million issuance of debt instruments called certificates of participation. The county superintendent stated that he objects to certificates of participation as a source of funds to replenish reserves and to provide operating revenues. Further, he questioned the district's ability to make payments on the debt as the payments become due. The district revised its budget and submitted it to the State Department of Education on December 15, 1989. This revised budget projects general fund expenditures of approximately \$208 million.

The county superintendent also reviews and approves the district's expenditures and deposits the majority of the funds the district receives with the Alameda County Treasurer's Office. The Alameda County Treasurer's Office acts as a banker for the district, disbursing cash for outstanding warrants and investing any surplus funds in interest bearing accounts.

The district has experienced financial difficulties for a number of years. In May 1986, we reported that the district's budgeted expenditures exceeded its anticipated revenues for fiscal year 1985-86. At that time, we did not recommend that the district obtain an emergency loan from the State because it had sufficient cash balances to meet its existing needs. However, we reported that, unless the district received additional revenues or substantially reduced its expenditures, it would have general fund deficits in fiscal years 1986-87 and 1987-88. We identified similar problems in March 1987. The district's actual general fund balances at June 30, 1986, 1987, and 1988, were approximately \$4.9 million, \$4.4 million, and \$452,000, respectively.

In March 1989, Deloitte Haskins & Sells, an accounting firm, reported to the county superintendent that the district continued to experience financial difficulties. The report stated that the district could end fiscal year 1988-89 with a general fund deficit of up to \$5.2 million. The report also predicted that at the end of fiscal year

1989-90, the district may have insufficient cash to meet its obligations and may have a general fund deficit of up to \$12 million.

On August 21, 1989, we reported to the Legislature that the district's unaudited financial report showed that the district had a general fund balance of approximately \$1.8 million at June 30, 1989. At that time, we projected that the district will have a general fund deficit of approximately \$2.6 million by June 30, 1990. We will again address the district's financial condition and estimate its condition as of June 30, 1990, in a report to be issued following this one.

In addition to the district's financial difficulties, the educational achievement of the district's students, as measured by the California Assessment Program, has been among the lowest in the State. For example, third graders at the district had test scores in school year 1988-89 that ranked in the twenty-second percentile for reading, the twentieth percentile for written expression, and the eighteenth percentile for mathematics. In addition, the district's twelfth graders had test scores that ranked in the third percentile for reading, the third percentile for direct writing, and the fifth percentile for mathematics. Further, the district has suffered some apparent management problems. As of December 18, 1989, eight current or former district employees have been arrested on charges including grand theft and receiving stolen property--all related to their activities at the district. On November 27, 1989, one employee pleaded

guilty to grand theft and receiving stolen property. As of December 18, 1989, charges are still pending against the seven other individuals.

On October 2, 1989, the State enacted Assembly Bill 2525. This new law required the superintendent of public instruction to appoint a trustee to advise and assist the district in preparing its budget, in developing plans to improve the educational achievement of all district students, and in resolving the financial and management problems of the district. Effective November 27, 1989, the superintendent of public instruction appointed such a trustee.

In addition, this law requires the district to obtain and submit to the county superintendent a report issued by an independent auditor on the financial condition and budgetary controls of the district and a written management review conducted by a qualified management consultant. This report, in conjunction with a report by Deloitte & Touche, will fulfill the management review requirements, and the report we will issue later will fulfill the requirements for the review of the district's financial condition.

SCOPE AND METHODOLOGY

This report will review management at the district. Specifically, we reviewed the district's policies, procedures, and practices to evaluate the district's internal controls over its payroll, personnel, inventory, and procurement. In addition, we reviewed the district's compliance with restrictions on the number of administrators it can have, requirements for identifying and disposing of its surplus real property, requirements for reporting student attendance, and requirements regarding conflict of interest. Our review is limited in that we did not select our samples randomly and did not make statistical projections to estimate the extent of the problems we identified.

To determine whether the district issues payroll warrants correctly, we reviewed employees' pay rates, time sheets, absence reports, and overtime authorizations for 51 warrants issued for fiscal year 1988-89. In addition, we reviewed retroactive salary increases given to over 300 district administrators. In selecting the transactions we reviewed, we included payments to individuals about whom we had received allegations.

Also, to determine whether the district adequately manages its personnel, we reviewed the district's hiring processes, its compensation of certain administrators, its granting of sabbatical leaves, its granting of doctoral stipends, and its granting of benefits

to high-level administrators. With the exception of the review of doctoral stipends, we included transactions about which we had received allegations.

We were unable to determine whether the district's costs for lost or missing property are higher than those of other large school districts because the district's records of missing property are incomplete. Nevertheless, we visited the district's warehouses and reviewed documents to assess the district's management controls over its materials and equipment.

Additionally, to determine whether the district prudently controls its contracts for and purchases of goods and services, we reviewed the approvals for 27 contracts and 105 payments and the district's evidence that it received the goods and services for which it paid. Moreover, because the district contracted with a district retiree who has been receiving a pension from the State Teachers' Retirement System (STRS), we reviewed the California Education Code sections related to school district consultant contracts with retirees who receive pensions from the STRS. When selecting the transactions we tested, we included those contracts and payments about which we had received allegations.

Further, to determine whether the district has too many administrators, we reviewed documentation of the district's certificated employees, as of October 23, 1989, and interviewed district staff. Certificated employees are those employees in positions that require credentials or permits issued by the Commission on Teacher Credentialing.

Furthermore, to determine whether the district complies with requirements for identifying and disposing of its surplus real property, we interviewed district staff and reviewed the district's records and the records of its consulting attorney. In addition, to determine whether the district obtains realistic appraisals of its property and sells its property at fair market prices, we contracted with a qualified appraiser to review and assess the validity of an appraisal on one of the district's properties and to appraise the value of that property as of the time the district sold it. The appraiser with whom we contracted concluded that the appraisal obtained by the district was reasonable and that the district received a price that was higher than the market value for the property when it sold it.

To determine whether the district maximizes its revenues by accurately reporting its student attendance to the State, we reviewed recent audits of the district's attendance reporting that were conducted by the Deloitte Haskins & Sells accounting firm and the State Controller's Office. We also reviewed the district's amendments to its attendance reports to determine whether the district corrects its

reports promptly to receive funds promptly. Moreover, to determine how the district's efforts to keep children in school compares with those of the other districts, we attempted to compare what the district spends on its drop-out prevention programs and its truancy programs with what other large districts spend. However, we were unable to obtain comparable information from the various districts.

Lastly, we reviewed the district's existing conflict-of-interest code and district employees' statements of economic interest submitted from 1984 through 1989 to determine whether the district complies with state laws governing these documents.

AUDIT RESULTS

I

THE OAKLAND UNIFIED SCHOOL DISTRICT DOES NOT ADEQUATELY CONTROL ITS PAYROLL

The Oakland Unified School District (district) is not exercising adequate management control over its payroll. Specifically, contrary to good internal control practices and other requirements, the district issues payroll warrants without proper approval. For example, although 119 (17 percent) of the 699 time sheets we reviewed had not been properly signed by the employee, the employee's supervisor, or both, the district issued payroll warrants to the employees. In addition, the district issued payroll warrants to employees without properly signed absence reports to indicate that the employees' absences were authorized and without evidence that employees had sufficient leave to cover their absences. Further, the district paid one employee over \$1,000 for time that he claimed to be ill but during which he was actually in police custody. Furthermore, the district paid two employees \$1,268 in overtime payments for time that they did not work. Moreover, the district erroneously calculated three payroll adjustments, resulting in overpayments totaling \$2,630 to two employees and an underpayment of \$1,030 to another employee. Also, the district overpaid at least 196 administrators when it implemented a retroactive salary increase in 1988. Additionally, some employees circumvented the district's controls over payroll, and the district has not always held these employees liable. For example, one employee falsified her time sheets but still received her pay. Further, the district does not

adequately separate the duties related to payroll. As a result of these weaknesses, the district has no assurance that employees have worked the time for which they are paid, and the district paid its employees over \$62,000 more than they were entitled to receive.

BACKGROUND

In fiscal year 1987-88, approximately \$132.1 million (67 percent) of the \$196.6 million the district spent from its general fund was for employee salaries. Similarly, of the \$200.8 million the district spent from its general fund in fiscal year 1988-89, \$139.7 million (70 percent) was for employee salaries. Because over two thirds of the district's total general fund expenditures are for salaries, good control over the payroll function is critical. This chapter summarizes the weaknesses we identified in the district's control over its payroll.

The District Issues Payroll Warrants Without Proper Approval

The district's payroll procedures manual requires all employees to sign and date their time sheets to certify that the information presented is accurate. Also, the manual requires the appropriate administrators or managers to sign their employees' time sheets to show their approval of the information on the time sheets. The manual also states that initials and signature stamps on time

sheets are not acceptable. In addition, the district's payroll procedures manual requires payroll clerks to review the time sheets for completeness, including signatures.

However, the district issued payroll warrants on 119 (17 percent) of the 699 time sheets that we reviewed although they were not properly approved by either the employee, the employee's supervisor, or both. Specifically, 26 time sheets were not signed by the employee, 18 time sheets were not signed by an appropriate administrator or manager, 12 time sheets were approved by a signature stamp, and 63 time sheets were signed by a third party who signed either the employee's name or the employee's supervisor's name.

In addition, some of the signatures on the time sheets appeared to be forged. For example, in 1987 and 1988, one employee's time sheets indicated that the employee had worked overtime. However, letters from the supervisor to the employee indicate that the employee forged the supervisor's signature on some of the time sheets. The letter states that the supervisor did not approve the overtime and did not authorize the employee to sign the supervisor's name on the time sheets. The employee claimed that the supervisor had given her permission to sign the supervisor's name.

Finally, the payroll department does not always verify that the administrators or managers that sign time sheets are the employees' supervisors and does not compare the signatures with signature specimens for the individuals whose names are signed.

As a result of the district not requiring time sheets to be properly approved, employees may submit erroneous or fraudulent time sheets resulting in payments to employees for time that they have not worked. For example, the district paid the employee who, it appears, forged her supervisor's signature \$1,093 for the overtime that appeared on the time sheets allegedly not signed by the employee's supervisor. However, the district was not able to conclude that the overtime was not authorized. In addition, when individuals sign other employees' names on time sheets, the district could have diminished recourse against these individuals if the time sheets are fraudulent.

The above conditions occur because the district does not always ensure that the policies and procedures over time sheet completion and approval are implemented. For example, because the payroll department does not always review lists of the individuals who are authorized to approve time sheets and does not have specimens of their signatures, the payroll department cannot verify that signatures are appropriate.

The district has told us that it is in the process of establishing new policies and procedures that will improve controls over payroll and has taken some action. For example, the district's acting controller wrote to all department heads and principals on November 16, 1989, stating that all employees who are authorized to sign official documents must submit specimens of their signatures to his office by December 1, 1989.

The District Does Not Exercise
Adequate Control Over Absence
Reporting and Leave Accumulation

Similar to its requirements for time sheets, the district's payroll procedures manual requires all employees to sign and date their absence reports. Also, the manual requires the appropriate administrators or managers to sign absence reports to show their approval of the information on the reports. In addition, the manual states that initials and signature stamps on absence reports are not acceptable. Further, the district's payroll procedures manual requires payroll clerks to review time sheets for completeness, including signatures and absence reports supporting all absences on the time sheets. When there are no absence reports to support absences, the payroll procedures manual requires that the payroll department reduce the employee's payroll warrant accordingly.

Moreover, several of the district's labor agreements specify that absences due to personal illness or injury that exceed four days should be supported by a written statement from a licensed physician giving the reason for the employee's absence, the first and last date of the employee's disability, and the date that the employee is able to return to work. In addition, the statement should contain the physician's address and telephone number so that the district can verify that the statement is legitimate. Further, employees must submit such a statement if they are requesting extended sick leave.

Finally, the personnel department should reduce employees' leave balances for any leave taken. This is particularly important because the district's labor agreements covering nonadministrative, classified personnel specify that the district will pay these employees for any unused vacation time at the end of each fiscal year. Classified employees are those individuals in positions not requiring credentials or permits issued by the Commission on Teacher Credentialing.

However, in our review of the leave taken by 23 employees during fiscal year 1988-89, we found that the district paid a total of \$3,204 to 4 employees for absences that were not supported by an absence report and that these employees' leave balances did not reflect the absences. In addition, the district did not reduce 3 employees' leave balances to reflect absences reported on absence reports and incorrectly adjusted leave balances for 5 other employees. Also, the district granted 3 employees funeral leave that exceeded the amount allowed by the employees' labor agreements. These 3 employees were compensated for 15 days or \$2,363 that they were not entitled to receive. Further, 3 of the 256 absence reports for the 23 employees were not signed by the employee; 31 were signed by someone other than the person whose name was signed; and 3 were approved by a signature stamp.

Furthermore, the district paid one employee approximately \$1,000 for time that he claimed to be ill but during which he was actually in police custody. Specifically, this employee was arrested on April 25, 1989, on two charges of possession of a controlled substance and pleaded no contest to one charge of possession of a controlled substance on May 10, 1989. Further, on June 7, 1989, this individual was convicted of the other charge of possession of a controlled substance. This employee was in police custody from April 25, 1989, until June 8, 1989. On April 28, 1989, someone completed an absence report on this individual's behalf that stated that the employee was at a court appearance from April 25, 1989, to April 29, 1989. The labor agreement between the district and this individual's bargaining unit allows paid leave of up to six workdays for court appearances only if employees are subpoenaed as witnesses. Moreover, we cannot be certain that the employee signed his own name on the absence report because the signature is dated May 3, 1989, when he was in police custody.

Although the employee was marked absent on his time sheets from April 25, 1989, to June 7, 1989, we were unable to find that any additional absence reports were submitted until two reports that were dated June 20, 1989. The first of these two absence reports stated that the employee was absent from May 1, 1989, to May 3, 1989, as a result of a personal illness, and the second report stated that he was absent from May 18, 1989, to May 31, 1989, on extended sick leave. All three of the absence reports were approved by what appears to be the

same signature, but this signature is illegible. We were unable to locate absence reports for the periods from May 4, 1989, to May 17, 1989, and from June 1, 1989, to June 8, 1989.

On June 19, 1989, the employee submitted a questionable certificate of absence as evidence that he had been under a physician's care from May 1, 1989, to June 4, 1989. We believe that the district should not have accepted this certificate of absence because the physician's signature is illegible, no date is specified for the date the employee could return to work, no telephone number is included, and the physician's address contains no street name. Although the employee gave his permission for the district to obtain information from his medical records held by this physician, the district had no way to locate the physician to confirm that the employee had been ill or under a physician's care. Moreover, because the district did not receive any communication from this individual between his first absence report that indicated that he was at a court appearance from April 25, 1989, to April 29, 1989, and his June 20, 1989, absence reports and because the district is prohibited from retaining in employment individuals who have been convicted of certain crimes, we believe that the district should have made every effort to verify the cause of his absence. This is the same employee discussed in Chapter II, page 35, of this report.

Additionally, the district paid one high-level administrator \$5,480 for 16 days that the employee did not work between July 1, 1986, and June 30, 1989. These days were in excess of the employee's

vacation allowance, and the district did not reduce the employee's sick leave or other leave balances. This is the same employee used as an example of the district granting certain high-level administrators compensatory time off without board approval for attending meetings and other functions. (See Chapter II, page 41, for more detail.)

In addition, the district overpaid some classified employees for unused vacation time at the end of the 1988-89 school year. Specifically, on November 2, 1989, and November 15, 1989, the district issued warrants to nonadministrative, classified employees for vacation time they had not used in fiscal year 1988-89. The district issued these warrants based on a computer report of leave balances that was printed on July 18, 1989. This computer report presumably reflected the employees' balances as of June 30, 1989, the end of the fiscal year. However, 2 of the 11 nonadministrative, classified employees we reviewed took vacation at the end of June 1989 that had not been posted to their leave balances as of July 18, 1989. As a result, the district overpaid these 2 employees \$2,546 for 20 days. In addition, at least 19 employees returned their warrants to the payroll department because they did not believe that they were entitled to receive them. As a result, it appears that employees who took vacation time during the last half of June were incorrectly paid for those days. The district is currently attempting to identify any additional overpayments.

As a result of the above weaknesses, the district is paying employees more than they are entitled to receive. Specifically, the district paid at least nine employees a total of over \$14,500 for absences and unused vacation that they were not entitled to receive. Also, by not detecting errors in absence reports, the district may pay some other employees more than it should and may deny individuals pay that they are entitled to receive. In addition, by allowing individuals to sign other employees' names and by allowing absence reports to be approved by signature stamps, the district could have diminished recourse against individuals who submit fraudulent absence reports.

The district has inadequate control over its absence reporting and leave accumulation because three different departments--payroll, personnel, and data processing--share responsibility for processing these transactions. The payroll department must verify that, for every absence noted on an employee's time sheet, there is a supporting absence report. In addition, the payroll department is responsible for reducing employees' pay if they do not have sufficient leave to cover absences. However, according to the payroll manager, the payroll department does not have direct access to the leave accounting system to determine how much leave employees have.

The personnel department is responsible for reviewing absence reports for completeness and accuracy and then sending batches of absence reports to the data processing department. The data processing

department enters information from the absence reports into the leave accounting system to reduce employees' leave balances for leave taken. The data processing department then prepares reports that it sends back to the personnel department for review. The personnel department uses these reports to prepare instructions to the payroll department to reduce subsequent payments to employees who have insufficient leave available to cover their absences.

There are no controls to ensure that all three departments complete their tasks for each absence. For example, there is no assurance that the personnel department receives all of the absence reports and no assurance that the data processing department enters all the information into the leave accounting system. The district has recognized the problems caused by this shared responsibility and is reviewing steps it can take to reorganize its management of absence reporting and leave accumulation.

The District Has Inadequate
Controls Over Preauthorizing
and Paying for Overtime

The labor contracts between the district and the union representing the custodians and aides to the handicapped specify that the district will pay overtime at 1.5 times an employee's straight rate of pay. The labor contracts also stipulate that employees may only work overtime upon assignment or authorization by a supervisor or department head. Further, the district's payroll manual requires that

all overtime be approved by the supervisor. Furthermore, good internal control practices dictate that the district verify that it does not make duplicate payments.

We reviewed eight overtime payments made to custodians and aides to the handicapped during fiscal year 1988-89 and found that the district overpaid two custodians by \$1,268. One employee submitted two time sheets for the same period, each with a different pay location, and the payroll clerk did not catch the duplication. In the other case, the payroll clerk submitted two data input sheets for the overtime the employee worked.

Additionally, the district's procedures for approving overtime, before the overtime is worked, are inadequate. For example, the operations and records unit of the business services department has a list of sites for which overtime is authorized and the custodians authorized to work at those sites. However, this list is more than three years old and is inaccurate. For example, three of the custodians listed no longer work for the district, and seven no longer work at the sites specified.

As a result of the district having inadequate controls over preauthorizing and paying for overtime, the district may be making overtime payments to employees who are not authorized to work overtime and who may not actually be working the amount of overtime for which the district is paying. When we brought the errors to the district's

attention, the payroll department initiated steps to recover the overpayment from one employee. However, the district has lost the other overpayment totaling \$636 because the employee has already left the district.

The district has inadequate control over preauthorizing and paying for overtime because its payroll system does not provide an edit check for duplicate data input sheets submitted for processing, nor does the payroll department review the overtime payments to ensure that none have been duplicated. Additionally, the district is not ensuring that the authorization of overtime is current and not based on overtime authorized several years ago.

The District Frequently
Miscalculates Salary Adjustments
for Staff Reassignments

The district pays employees based on salary schedules negotiated with labor unions. Any adjustments the district makes based on staff reassignments should be made correctly in accordance with these salary schedules.

However, the payroll department incorrectly calculated 3 of the 12 salary adjustments we reviewed. The payroll department made these 3 adjustments to correct prior payments made to individual employees based on retroactive changes in their job assignments or salary levels, but the payroll clerks made errors when calculating the

salary adjustments. Specifically, the payroll clerks used the wrong number of elapsed days before the change took place, used the wrong base salary, and made a mathematical error. As a result, the payroll department overpaid 2 employees a total of \$2,630 and underpaid the other employee \$1,030.

The District Does Not Exercise
Adequate Control Over
Retroactive Salary Increases

The labor agreement between the district and the United Administrators of Oakland Schools, approved by the district's board of education (board) on October 12, 1988, provided for a 3 percent retroactive increase in its administrators' salaries effective January 1, 1988, and another 3.5 percent retroactive increase effective July 1, 1988. In addition, according to the director of labor management and employee relations, these percent increases, paid on November 15, 1988, were to be applied to base salaries only, and not to any stipends the individual administrators may have been entitled to receive. Stipends are payments that some district employees receive in addition to their regular salary. For example, administrative employees who have worked for the district for at least 25 years receive a longevity stipend of \$1,092 per year in addition to their salary.

Nevertheless, the district gave at least 196 administrators larger retroactive salary payments than it agreed to pay because it applied the percent increases to administrators' stipends in addition to their base salaries. Further, the district paid at least 7 employees a total of \$785 in retroactive increases on warrants that covered periods before January 1988 and, consequently, were not eligible for the increases. As a result, the district paid over \$16,830 more to employees for retroactive salary increases than they were entitled to receive.

Good management practices dictate that the district verify that it can implement provisions of labor agreements before it agrees to them. However, the district made these overpayments because, according to the district's data processing staff, the district's computer file that it uses to produce retroactive salary increases does not distinguish what portion of employees' pay is basic salary and what portion is made up of various stipends. In addition, the file does not identify what warrants are covered by what pay periods. According to the director of data processing, the district would benefit from establishing a committee comprised of representatives of the departments that must implement labor agreements to ensure that the departments can implement contract provisions before the contracts are finally approved. According to the district's interim superintendent, the district is in the process of acquiring a new personnel and payroll system.

District Employees Circumvented
Controls Over Payroll

The district's Administrative Bulletin 10005 states that employees are responsible for posting time worked on their time sheet on a daily basis, for reviewing and signing the time sheet at the end of the pay period, and for preparing and submitting appropriate documents for authorized exceptions. The bulletin also requires the employee's manager to ensure that exceptions are posted in accordance with the instructions contained in the business services site procedures manual and to review, approve, and certify all time reporting documents. Finally, the payroll procedures manual states that "any person who authorizes an expenditure without specific written approval in advance will be held personally liable for the costs incurred."

In spite of these existing controls, we found that several district employees, through collusion, circumvented them and that the district has not always held these employees liable. For example, one employee submitted false time sheets to the district. She claimed on her time sheets that she worked for the district during hours when she was actually working for Mills College. As a result, the district paid the employee approximately \$3,000 for 92 hours that she did not work. Further, her supervisor circumvented the proper payroll procedures by certifying the employee's time sheets knowing that the hours recorded were not the actual hours worked. The district's management was unaware of this circumvention until we informed them on

November 2, 1989. As of January 5, 1990, we could find no evidence that the district has recovered the money it paid this employee for time she did not work. Further, we could find no evidence that the district has reprimanded her supervisor for certifying what he knew to be false time sheets.

Furthermore, from May 1987 through July 1988, the district issued over \$24,150 in overtime payments to five custodians, as a result of false payroll documents prepared by an employee in the payroll department. Although these employees were able to circumvent the controls, the district eventually learned of the fraud and has been taking action to recover the funds from the custodians. In addition, the payroll department employee was arrested on August 22, 1989.

The District Does Not Adequately Separate the Duties Related to Payroll

Good internal controls dictate that the district adequately separate the duties of employees involved in payroll operations to prevent fraud. For example, individuals who process or sign payroll documents should not handle payroll warrants.

However, the district's payroll clerks who process payroll documents sort the warrants into delivery truck bags on pay day. There are no procedures to ensure that a payroll clerk does not handle the warrant of an employee for whom he or she processes payroll documents.

Also, the principals and department managers who approve time sheets also receive and distribute warrants.

Without proper separation of duties over the processing and signing of payroll documents, such as time sheets, employees may create and submit time sheets for fictitious employees and then cash the warrants. However, we found no fictitious employees during our payroll tests.

CONCLUSION

The Oakland Unified School District is not exercising adequate management control over its payroll. Specifically, contrary to good internal control practices and other requirements, the district issues payroll warrants without proper approval. For example, although 119 (17 percent) of the 699 time sheets we reviewed had not been properly signed by the employee, the employee's supervisor, or both, the district issued payroll warrants to the employees. In addition, the district issued payroll warrants to employees although the district did not have properly signed absence reports to indicate that the employees' absences were authorized and it did not have evidence that employees had sufficient leave to cover their absences. Further, the district paid one employee over \$1,000 for time that he claimed to be ill, but during which he was actually in police custody. Furthermore, the district paid

two employees \$1,268 in overtime payments for time that they did not work. Moreover, the district erroneously calculated three payroll adjustments, resulting in overpayments totaling \$2,630 to two employees and an underpayment of \$1,030 to another employee. Also, the district overpaid at least 196 administrators when it implemented a retroactive salary increase in 1988. Additionally, some employees circumvented the district's controls over payroll, and the district has not always held these employees liable. For example, one employee falsified her time sheets but still received her pay. Further, the district does not adequately separate the duties related to payroll. As a result of these weaknesses, the district has no assurance that employees have worked the time for which they are paid, and the district paid its employees over \$62,000 more than they were entitled to receive.

RECOMMENDATIONS

To ensure that it only pays employees what they are entitled to receive, the Oakland Unified School District should take the following actions:

- Prepare a list of the individuals who are authorized to approve time sheets and absence reports, and obtain signature specimens for those individuals. In addition, the payroll department should maintain both the list of

individuals authorized to approve these documents and their signature specimens and verify that employees and their appropriate supervisors sign all documents;

- Establish a system of controls for ensuring that all absence reports are accurate and that they are entered into the leave accounting system;
- Verify that certifications that employees have been under physicians' care are legitimate;
- Check that employees submit only one time sheet for one period and that the payroll department does not submit duplicate data input sheets for processing overtime payments;
- Review all overtime payments to ensure no duplicate payments are made;
- Ensure that all departments follow its overtime policy and authorize all overtime on a current basis;
- Ensure that salary adjustments for changes in staff assignments and salary levels are correctly calculated;

- Verify that labor agreement provisions can be implemented before finalizing the agreement;
- Include in its new personnel and payroll system the capacity to distinguish between base salaries and stipends;
- Hold employees who receive pay for time that they have not worked liable for that pay and hold supervisors accountable when they knowingly certify false time sheets; and
- Separate the duties of employees performing payroll operations.

II

THE OAKLAND UNIFIED SCHOOL DISTRICT HAS POOR PERSONNEL MANAGEMENT PRACTICES

The Oakland Unified School District (district) exercises inadequate control over the hiring of personnel and gives some employees preferential treatment. Specifically, until December 28, 1989, the district employed at least one individual who has been convicted of a controlled substance offense and sometimes hires individuals who have been convicted of theft and burglary and assigns them to positions that require a high degree of trust. In addition, it does not follow its own policies and procedures when compensating and reassigning employees, when granting sabbatical leaves, and when granting doctoral stipends. For example, although the district's board of education (board) had reassigned one individual to a position that has a predetermined salary, the district paid this individual a substantially higher salary. Additionally, contrary to good contracting practices, the district's contracts with its high-level administrators do not address whether they are entitled to any leave other than vacation, and the district grants personal leave, sick leave, and other types of leave without board approval. Also, contrary to benefits given to high-level administrators by three other large school districts and contrary to the benefits the district gives to most of its administrators, the district, without board approval, granted at least one high-level administrator compensatory time off for attending meetings and other functions. Further, the district granted

an individual a sabbatical leave although she did not comply with the stated requirements for sabbaticals. Furthermore, the district grants some administrators doctoral stipends but has no evidence that they are entitled to receive them. As a result of these poor personnel management practices, the district may have allowed its students to be exposed to drugs, has allowed itself to be vulnerable to theft, and has paid over \$124,000 more than necessary to six employees.

The District Sometimes Hires
Previously Convicted Individuals
for Positions That Require
a High Level of Trust

The district's Administrative Bulletin 8010 states that all applicants selected for employment at the district must be fingerprinted. Further, it is the district's policy to submit all classified employees' fingerprints to the California Information Bureau of the California Department of Justice to obtain criminal histories on all classified employees. In fact, the California Education Code, Sections 44836 and 45123, prohibits the district from employing individuals who have been convicted of certain sex offenses, as defined in Section 44010, and of certain controlled substance offenses, as defined in Section 44011. Further, prudent management practices dictate that the district should not hire individuals who have been convicted of crimes involving theft, burglary, embezzlement, and others that indicate a lack of trustworthiness for positions where cash, equipment, or other assets are vulnerable. These positions require a

high level of trust. For example, the district should not hire individuals who have been convicted of burglary for jobs that give them unattended access to district property.

We reviewed personnel files for 14 classified employees: 5 aides to the handicapped, 5 custodians, one gardener, one materials expeditor, and 2 managers. The personnel files for 2 of the 14 employees whose files we reviewed contained no evidence that the district had ever submitted the employees' fingerprints to the California Information Bureau to determine whether the employees had been convicted of any crime. These 2 employees are aides to the handicapped.

In addition, 4 of the remaining 12 files we reviewed contained evidence that the employees had been convicted of crimes. Moreover, one of these employees had been convicted of some of the crimes identified by the California Education Code, Sections 44836 and 45123. Specifically, this individual was convicted of unlawful possession of a controlled substance under the California Health and Safety Code, Section 11377, on January 27, 1977. The district hired this employee on March 29, 1983, and has evidence of his conviction in his personnel file. Although this particular code section was not cited in the California Education Code until 1984, the California Education Code, Sections 44836 and 45123, specifies that the district should not employ or retain in employment persons who have been convicted of this crime.

Therefore, we believe that the district is in violation of these California Education Code sections and conclude that the district had a responsibility to review the criminal histories of their existing employees to determine whether they fall under the sections in the California Education Code related to criminal convictions.

Moreover, this same individual was convicted of unlawful possession of a controlled substance under the California Health and Safety Code, Section 11350, on May 10, 1989, and on June 7, 1989. At this time, this individual was employed as a custodian at a district high school. This is also one of the sections specified in the California Education Code, Sections 44836 and 44011. Until December 28, 1989, this employee was employed as a custodian at a district elementary school because the district was not aware of this conviction. However, after we notified the district on December 22, 1989, of the individual's conviction, the district dismissed him from district employment. This is the same individual we discuss in Chapter 1, page 17, who, while he was in police custody, claimed paid leave on the pretext that he was ill. The period the individual was in police custody was related to this conviction. In addition, the district hired this person although he had been convicted of forgery twice and burglary three times, among other crimes, before the district hired him. As a custodian, this individual would have had, at a minimum, a key to open all facilities at the school to which he was assigned.

Additionally, another one of the 14 employees whose files we reviewed had been convicted of crimes that demonstrated that he was not trustworthy. Specifically, this employee had been convicted of theft on at least five occasions, carrying a loaded firearm within the city limit on a separate occasion, forgery on another occasion, and drunk driving on seven occasions, among other crimes. As discussed in Chapter III, page 58, this employee was given a key to all district facilities. Further, the district has allowed him to drive district vehicles.

As a result of hiring individuals who have proven themselves not to be trustworthy, the district may have allowed its students to be exposed to drugs and has made itself vulnerable to theft. For example, the employee who was convicted for possession of a controlled substance has worked at basketball games, coeducational volleyball games, and other extracurricular activities in addition to his regular custodian duties. Further, on November 27, 1989, the second individual discussed above pleaded guilty to stealing district property.

The district does not disqualify for positions requiring a high level of trust those individuals who have been convicted of burglary, theft, forgery, and other such crimes because the district's board has not adopted a policy that disqualifies potential employees who have been convicted of crimes other than those specified by the California Education Code even though the positions being sought require a high level of trust.

**The District Does Not Always Follow
Its Own Personnel Policies When
Setting Compensation for Administrators**

The California Education Code, Section 35035(c), grants the superintendent power, subject to the board's approval, to assign individuals to certificated positions. In addition, the district's policy governing the placement of administrative employees on salary schedules states that the district will give administrative employees who move to a lower salary range because of a change in classification, the highest salary on the new range that yields a lower daily rate of pay than the employee was earning before the change.

However, the district gave salaries to at least two individuals that were higher than those designated by district policy. Specifically, on July 23, 1986, the assistant superintendent of employee resources and development directed that an employee who had been a principal, but who had been assigned to a program manager position by the board be paid at a higher salary range commensurate with a salary range for a coordinator position. This assignment was effective July 1, 1986. The salary range for coordinators is over 10 percent higher than the salary range for program managers. The assistant superintendent stated that the superintendent requested that the employee be paid the higher salary because the superintendent did not want the employee to be adversely affected as a result of his reassignment. However, until March 1988, all personnel documents identified this employee as a program manager. In addition, the board

approved his assignment to a program manager position--not a coordinator position. For the period from July 1, 1986, through November 30, 1989, the district paid this employee over \$17,225 more than it should have paid him according to the board-approved assignment and district policy. Moreover, it appears that this employee received preferential treatment. Specifically, the board assigned another employee who had been a principal to a program manager position, also effective July 1, 1986. However, the district paid this employee the appropriate salary for program managers, not the salary for a coordinator position.

In addition, on September 7, 1988, the assistant superintendent of human resources wrote to the superintendent, stating that another administrator had requested to be placed two steps higher on the salary range than normal for her newly assigned assistant superintendent position. The district had assigned her to this new position, with board approval, effective July 1, 1988. On September 26, 1988, the superintendent approved the higher salary, which was then paid to the employee retroactive to July 1, 1988. As a result, the district paid this employee \$6,392 more than it should have paid her according to district policy.

The District's Contracts With Its
High-Level Administrators Do Not
Address Whether They Are Entitled
to Leave Other Than Vacation

Good contracting practices dictate that the district include all the provisions governing its agreements with high-level administrators in their employment contracts or specifically identify other policies that apply to this type of employee. For example, other large school districts that we contacted have either specific provisions in their contracts with high-level administrators that address sick-leave policies or other district policies, referred to in the contracts, that apply to the administrators.

Although the number of days of annual personal leave and sick leave the district grants its high-level administrators is consistent with the practices of other large school districts, the employment contracts between the district and its high-level administrators do not contain provisions for personal leave, sick leave, or any other type of leave, except vacation. The contracts also do not specify whether these high-level administrators are governed by any other district policies concerning sick leave. The district presumes that its contracted high-level administrators are covered by leave policies adopted by the board in fiscal year 1983-84. However, it is not clear whether these policies are still in effect or whether the board intended them to apply to contracted administrators. As a result, the district may be paying high-level administrators for sick leave and other types of leave without board approval.

**The District Grants Its High-Level
Administrators Compensatory Time Off for
Attending Meetings and Other Functions**

The employment contracts between the district and its high-level administrators do not contain provisions for compensatory time off for attending meetings and other functions. In addition, the policies that the district presumes are applicable to its high-level administrators do not allow compensatory time off for attending meetings and other planned functions. Further, three other large school districts that we contacted do not allow their high-level administrators compensatory time off.

However, the district granted compensatory time off to at least one high-level administrator for the time she spent at board meetings and other district functions she was required to attend. Specifically, in the past, the district has granted compensatory time off to its deputy superintendent for meetings she attended beyond the regular workday. From May through June 1988, the district granted 28 days of compensatory time off to the deputy superintendent to cover a period of time she was absent. The deputy superintendent was paid \$9,210 during the 28 days of compensatory time off. The deputy superintendent had accumulated sufficient sick leave and personal leave to cover a portion of this absence. However, the district has no evidence that she was ill during this time. In addition, as discussed in the previous section, the district's contracts with high-level administrators, including this employee, do not specify that they are

entitled to sick leave or personal leave. Further, because the district does not consistently allow compensatory time off to all of its administrators, it appears that the deputy superintendent received preferential treatment.

The District Did Not Follow
Its Own Policies and Procedures
for Granting Sabbatical Leave

District policy, as documented in Administrative Bulletin 8052, specifies that employees must submit applications for sabbatical leave to the personnel department no later than March 1 of the fiscal year preceding that in which the leave is to begin. Sabbatical leaves are to be granted for study or travel that will benefit the district's schools and pupils. In addition, the California Education Code, Section 44969, requires school district employees to agree in writing to work for the district after their sabbatical for a period of time that is equal to twice the length of the leave.

Further, the same section of the California Education Code allows the district to pay an employee while on sabbatical leave in regular installments if the employee provides a bond indemnifying the district against loss in the event that the employee fails to work for the district for the requisite time after the end of the sabbatical leave. Furthermore, according to the district's policy, within 30 days of the employee's return to duty, the employee must submit transcripts or other evidence of having completed study for which the leave was

granted. Finally, compensation is to be at two thirds of the current annual salary for the position held by the employee just before the start of the leave.

However, on at least one occasion, the district did not follow its own policies and procedures and did not require an employee to comply with state law. Specifically, on July 22, 1987, the district's board approved a one-year sabbatical leave retroactive to July 1, 1987. This leave was to extend to June 30, 1988. The board approved this sabbatical leave even though the employee did not submit her application until July 15, 1987--after the March 1, 1987, deadline.

The employee agreed to purchase an indemnity bond to receive the warrants the district issued to her every month while she was on sabbatical. However, she did not obtain and provide such a bond, and the employee only worked one year for the district after returning from her sabbatical--not the two years required by law. Further, the employee never submitted transcripts or other evidence that she had completed the required study during her sabbatical.

As a result, the district paid this employee \$38,967 to be on sabbatical leave for a year yet has no evidence that the employee did any of the activities that she said she would do in her application. Furthermore, the district was unable to file a claim against an indemnity bond that should have covered the district's loss of

\$19,484. This is the amount the district paid the employee while she was on sabbatical that she is not entitled to keep because she did not work for the district for the full two years when she returned from her sabbatical. Consequently, the district must now try to reclaim this money from the former employee. As of September 8, 1989, this individual was working for another school district.

On October 27, 1989, this individual requested a leave of absence from the district. She asked to be granted a leave of absence from September 16, 1989, through September 16, 1990. On December 18, 1989, the district approved her request. The district's general counsel, as of December 27, 1989, believes that granting this leave will not impair the district's ability to reclaim the \$19,484 if the individual does not return to work for the district after September 16, 1990.

The District Does Not Always Follow
Necessary Procedures for
Reassigning Certificated Employees

The California Education Code, Section 44951, requires the district to notify certificated employees by March 15 that they may be released from their position in the following school year if the district may have to reassign or lay off these employees. In addition, in Ellerbroek vs. Saddleback Valley Unified School District, November 1981, the California Appeals Court held that districts cannot alter integral portions of a certificated employee's employment

contract after the beginning of the school year on July 1 and may only alter the contract by formal board action before July 1.

On March 14, 1988, before the certificated employee discussed in the preceding section returned from her sabbatical leave--during which she was being paid as an administrator--the district notified her, in accordance with state law, that it may be necessary to release her from her position for the 1988-89 school year. However, before July 1, 1988, the board did not take the required formal action to reassign her or notify her that she was reassigned to a classroom teaching position. On September 2, 1988, the employee returned from sabbatical leave, which ended on June 30, 1988, and worked as a teacher until February 24, 1989. On November 15, 1988, the Association of California School Administrators wrote to the district on the employee's behalf, stating that it was referring the issue of the employee's entitlement to her legal counsel. On November 17, 1988, the employee's legal counsel wrote to the district demanding that the district reinstate her to an administrative position and pay her all differences in salary and benefits retroactive to July 1, 1988. On February 21, 1989, believing it was legally obligated, the district reassigned the employee to an administrator position and subsequently paid her as an administrator retroactive to July 1, 1988.

As a result, the district paid the employee \$62,110 for fiscal year 1988-89--\$24,757 more than the \$37,353 it would have paid her for being a teacher if the district had properly taken action before

July 1, 1988. According to the interim deputy superintendent of human resources, the superintendent relied on staff advice that indicated that no board action or notice was necessary before July 1, 1988, because the employee was notified in the previous year of her reassignment to a teaching position.

The District Grants Some Administrators
Doctoral Stipends Although It Has
No Evidence That the Administrators
Are Entitled To Receive Them

The labor contracts between the district and the unions representing its teachers and certain other certificated employees allow those employees to receive doctoral stipends if they have completed a doctoral degree or if they have completed a master's degree and a total of 90 semester units. In addition, the district's salary schedules for certificated administrators also provide for doctoral stipends. Since fiscal year 1986-87, these stipends have ranged from \$2,269 per year to \$2,575 per year, depending on whether the employees work 10, 11, or 12 months out of the year. The contracts require employees to submit transcripts of their educational credits earned at accredited institutions. In addition, the contracts allow up to 30 equivalency units for travel, related summer work experience, workshops, work at specialized schools, private study, and district-provided training to be counted toward the minimum number of units required to be eligible for doctoral stipends. However, the contracts specify that the coordinator of certificated personnel must approve plans for travel and related summer work experience in

advance. Further, the coordinator of certificated personnel must evaluate any workshops, work at specialized schools, or private study to determine whether these activities qualify for educational credit.

Although the district usually requires employees to submit transcripts from accredited institutions as evidence that they have received graduate-level education, the district does not exercise comparable control over credit for travel, workshops, work at specialized schools, and private study. Specifically, the district's coordinator of certificated employees does not review or approve travel plans for trips or all evidence of workshops or private study used as equivalency units toward doctoral stipends.

Only 3 of the 18 employees receiving doctoral stipends whose files we reviewed had doctoral degrees. One of the others had a doctoral equivalent that consisted of over 90 semester units, including a master's degree, earned at accredited institutions. Fourteen of the 18 employees relied on various combinations of education at accredited institutions, travel, related summer work experience, workshops, private study, and district-provided training. Three of the 14 employees relied on workshops or private study for equivalency units. However, there was no evidence in any of their files that the coordinator of certificated personnel had evaluated the hours of private study to assess whether they were equivalent to college education. In addition, some of the credits granted for workshops or

private study to two of the employees did not appear to be warranted because the district had insufficient evidence that the employees had completed the work.

Further, five of the employees whose files we reviewed relied on travel to obtain their stipends. Of the nine travel plans we reviewed for these five employees, none had been approved by the coordinator of certificated personnel, and some of the trips for two employees did not appear to be equivalent to college-level education. However, two travel plans submitted in 1970 by two of the employees had been reviewed and approved by a salary evaluation committee that was in place at that time, and these plans appeared reasonable. The following are examples of the district's lack of control over granting doctoral stipends.

Doctoral Stipend Granted to
an Assistant Superintendent

The district granted the assistant superintendent of human resources (assistant superintendent) 41.25 units for work experience, travel, workshops, private study, and district-provided training--more than the maximum of 30 equivalency units allowed toward doctoral stipends. Without granting her more than the 30 units allowed, this employee would not have had the 90 units required for a doctoral stipend. Included in the equivalency units granted were five and one-half units for travel. Four of these units were granted for a July 4 through August 2, 1985, trip to Europe although the employee did

not submit her travel plan until September 30, 1986, and it was never approved by the coordinator of certificated personnel. The coordinator of certificated personnel must approve travel plans in advance.

In addition, on October 3, 1986, the district granted the assistant superintendent 27.75 equivalency units for private study and attendance at conferences and symposiums that she presumably completed from January 1984 through June 1986. However, she did not obtain the instructors' signatures verifying her attendance as required. Further, the assistant superintendent claimed to have attended 45 hours of training in clinical supervision from January through June 1984 at California State University, Hayward. However, according to the trainer, the training consisted of only 40 hours, not the 45 hours that the assistant superintendent claimed. Further, there is no evidence that the coordinator for certificated personnel, who reports to the assistant superintendent, reviewed and approved the equivalency units. The assistant superintendent has been paid \$8,798 for a doctoral stipend from July 1, 1986, to November 30, 1989.

Doctoral Stipend Granted to a Director

On July 31, 1986, the district retroactively granted the director of state and federal programs a doctoral stipend effective July 1, 1986. The district granted this stipend by allowing him 12.667 units for private study and attendance at conferences and symposiums, presumably completed from March 1984 through June 1986, although the

director had not obtained the instructors' signatures verifying course completion, as required, for all of the units. Nevertheless, the director of personnel at that time and the deputy superintendent approved these units. This employee has received \$7,940 in doctoral stipends since July 1, 1986. The district suspended this employee without pay as of August 11, 1989, for issues unrelated to his doctoral stipend.

Doctoral Stipend Granted to a Teacher

The district gave another employee, an English teacher, 12 units of credit for three trips presumably taken in 1975, 1976, and 1977. There was no evidence that the coordinator for certificated personnel reviewed or approved the eligibility of any of these trips for college credit. Further, at least two of the three travel plans the employee submitted do not appear to be equivalent to graduate-level education. For example, travel given equivalency credit is to be preceded by study, is to feature an educational itinerary, and is to be followed by direct and obvious classroom applications. The employee stated that he would read books, maps, and other related materials for his preliminary study and that he would obtain pictures, brochures, and historical knowledge on two trips: one to Victoria, British Columbia and Vancouver; and the other to London, Paris, Madrid, Barcelona, Frankfurt, and other places. It is our opinion that most travelers would, at the minimum, read some books and maps before undertaking a trip to another country. Further, we believe that most travelers would

obtain pictures and brochures while on vacation. In addition, the employee submitted one of the plans over ten months after the August 1 to September 1, 1975, trip to Canada was supposed to have occurred. In fact, according to the employee's employment history at the district, this employee was at an orientation program at Hamilton Junior High School from August 25 through 29, 1975, rather than on the trip for which the district gave him credit. The district paid this employee \$10,919 for his doctoral stipend from July 1, 1985, to November 30, 1989, without evidence that he was entitled to receive this amount. Further, this employee, who is the same employee used as the first example of the district not following its own policies when setting compensation for administrators because he was paid for a higher level position than was approved by the board (page 38), has received a doctoral stipend since 1978.

The district has little control over granting doctoral stipends, in part, because the coordinator of certificated personnel has delegated responsibility for reviewing and approving travel plans to a salary technician and relies on this employee to bring any cases in which she is in doubt to the coordinator's attention. However, the salary technician does not have the formal training that would allow her to make qualified opinions on whether specific travel plans should qualify for education units.

CONCLUSION

The Oakland Unified School District exercises inadequate control over the hiring of personnel and gives some employees preferential treatment. Specifically, until December 28, 1989, the district employed at least one individual who has been convicted of a controlled substance offense and sometimes hires individuals who have been convicted of theft and burglary and assigns them to positions that require a high degree of trust. In addition, it does not follow its own policies and procedures when compensating and reassigning employees, when granting sabbatical leaves, and when granting doctoral stipends. For example, although the district's board of education had reassigned one individual to a position that has a predetermined salary, the district paid this individual a substantially higher salary. Additionally, contrary to good contracting practices, the district's contracts with its high-level administrators do not address whether they are entitled to any leave other than vacation, and the district grants personal leave, sick leave, and other types of leave without board approval. Also, contrary to benefits given to high-level administrators by three other large school districts and contrary to the benefits the district gives to most of its administrators, the district, without board approval, granted at least one high-level administrator compensatory time off for attending meetings and other

functions. Further, the district granted an individual a sabbatical leave although she did not comply with the stated requirements for sabbaticals. Furthermore, the district grants some administrators doctoral stipends but has no evidence that they are entitled to receive them. As a result of these poor personnel management practices, the district may have allowed its students to be exposed to drugs, has allowed itself to be vulnerable to theft, and has paid over \$124,000 more than necessary to six employees.

RECOMMENDATIONS

To improve its personnel management and avoid giving some employees preferential treatment, the Oakland Unified School District should take the following actions:

- Exercise due diligence to ensure that it does not employ individuals who have been convicted of prohibited crimes;
- Establish a policy to disqualify candidates for positions that require a high level of trust if the candidates have been convicted of crimes that demonstrate that they are not trustworthy;
- Adhere to its policies and procedures for setting compensation;

- Improve its employment contracts with its high-level administrators, specifying what benefits these employees are entitled to receive or what other district policies apply to these employees in addition to those specified in the contract;
- Comply with the established contracts and policies and only grant exceptions to these agreements when the board has granted its approval;
- Adhere to its policies for granting sabbaticals, reassigning employees, and granting doctoral stipends; and
- Consider assigning responsibility for granting credit toward doctoral stipends to a salary evaluation committee composed of certificated employees.

III

THE OAKLAND UNIFIED SCHOOL DISTRICT DOES NOT SAFEGUARD ITS ASSETS

Contrary to good internal controls and its own policies, the Oakland Unified School District (district) does not limit access to keys that open the district's facilities, does not store all of its building materials in secure areas, and does not physically inventory its assets regularly. As a result of these weaknesses, a district employee is known to have stolen approximately \$30,000 in equipment and materials. Also, the district has lost over \$9,200 in additional equipment and materials from September 19, 1988, to September 29, 1989. Furthermore, the district does not maintain adequate control over its surplus equipment and so continues to be susceptible to theft.

The District Does Not Limit Access to Keys That Open District Facilities

Good internal control practices dictate that the district limit access to keys that open multiple facilities to trustworthy individuals and to as few of those as possible. Such controls should include a written policy designed to prevent unauthorized entry into district facilities by employees as well as outsiders. In 1979, because it was suffering significant losses attributed to misplaced or stolen keys, the district established a policy that states that site master keys (those that open all the doors at individual sites) can

only be given to a school site's principal, vice principal, and custodians. The policy also requires each school to establish a written policy for controlling its non-master keys. The policy further requires each school to collect and store in locked containers additional non-master keys daily. Finally, the policy requires each school to assign to a specific staff member responsibility for protecting non-master keys. On September 15, 1980, the district revised these procedures to include policies covering approval for obtaining keys, for returning keys, and penalties for unauthorized possession of district keys.

However, although the district has established a policy covering site master keys and non-master keys, not all schools follow this policy. Specifically, we visited three school sites and found that, contrary to the district's policy, all three schools allowed persons other than principals and custodians to have site master keys. For example, two of the schools allowed secretaries to have site master keys, and one school allowed a cafeteria worker and two teachers to have a site master key. Moreover, only one of the three schools complied with the district's other requirements for non-master keys. Specifically, two of the three schools did not have a written policy controlling the non-master keys as required by district policy. In addition, these two schools failed to collect and secure in locked containers their additional non-master keys daily. Finally, the two schools failed to assign to a specific staff member responsibility for protecting non-master keys.

In addition, the district has not established a written policy that specifically covers the district's grand master keys, which open all district facilities. For example, before we requested a complete list of the individuals to whom the district had issued grand master keys, the district did not have such a list. Moreover, at least 128 employees in various positions, including truck drivers, gardeners, and various tradespeople, currently have grand master keys. These individuals have the ability to enter any district facility at any time. In addition, the district does not have a policy prohibiting the issuance of grand master or site master keys to individuals who have been convicted of theft or burglary. Further, the district could not account for all of the grand master keys that have been issued.

As a result of the district's failure to adequately control its grand master, site master, and non-master keys, the district is more susceptible to theft. Specifically, of the 27 burglaries we reviewed that occurred at the district from September 19, 1988, to September 29, 1989, 11 (41 percent) may have been committed by individuals with keys to the facilities. These burglaries were accomplished without forced entry and some without triggering burglar alarms. Over \$9,200 in district property, including refrigerators, computers, and a video tape recorder were stolen during these 11 burglaries. Further, on July 13, 1989, Oakland police arrested the foreman of the district's preventive maintenance program on charges of stealing district property with an estimated value of \$30,000. This property included a computer, an overhead projector, a typewriter, and

42 other items, all of which bore district inventory numbers or other district markings. This employee, who pleaded guilty to embezzlement, grand theft, and receiving stolen property on November 27, 1989, had one of the district's master keys, in spite of the fact the district had information that he had been convicted of theft on numerous occasions before he was hired. This individual is no longer employed by the district.

The District Does Not Store All of
Its Inventory in Secure Areas

Good internal control practices dictate that the district store its inventory in physically secure areas and limit access to these areas to specifically authorized individuals with responsibility for safeguarding the items. However, the district does not subject its lumber and similar items to these internal controls. The district stores some of these items in an area with an open, unattended gate across the street from the district's secured warehouse grounds. It appears that the district stores these items in the yard rather than the warehouse for the convenience of the tradespeople. Therefore, all of the district's approximately 90 tradespeople have access to and may remove lumber and similar items from the yard with little or no supervision.

The district's failure to adequately secure these items makes them more susceptible to theft. For example, the director of buildings and grounds reported that 65 sheets of plywood, measuring four feet

wide by eight feet long, disappeared from the district's yard between May 26, 1989, and September 12, 1989. This plywood was worth approximately \$1,400. In addition, on July 13, 1989, the Oakland police arrested a district employee for stealing, among other things, building materials that are stored in the district's unsecured yard.

The District Does Not Physically Inventory Its Assets Regularly

Good internal controls dictate that the district take a physical inventory of its assets regularly to ensure the accuracy of the inventory records and to maintain accountability for the district's assets. For example, the State Department of Education's Self-Assessment Guide recommends an annual physical inventory of the district's assets. However, the district has not taken a complete physical inventory of its assets since 1978, over 11 years ago.

As a result, the district does not have an accurate record of its equipment. For example, the district's independent auditor reported uncovering "many" errors in the inventory records in his report for the year ending June 30, 1986. Also the district is not always aware of the location of its assets and when they are missing. For example, while conducting spot checks of its schools' inventories in fiscal year 1988-89, the district found over \$73,000 worth of computer and office equipment in locations other than noted in district records. In addition, the district cannot take action to locate and recover assets when it does not know they are missing.

The District Has Inadequate
Control Over Its Surplus Equipment

Section 35168 of the California Education Code requires the district to maintain records to show, among other things, the time and mode of disposal of equipment which exceeds \$500. Although the district has a system for identifying and disposing of surplus equipment, the district's current inventory system does not record when and how the district has disposed of its surplus equipment. Thus, once surplus equipment is eliminated from the district's listing of inventory, it would be difficult to trace the surplus equipment from the time the district initially acquires the equipment through the time the district actually disposes of it.

As a result, the district cannot account for all surplus equipment and cannot document whether or not it disposed of equipment in accordance with district and state policy. For example, district employees have stolen surplus district equipment without being detected by district officials. In May 1989, the principal of one of the district's schools submitted a work order to have surplus lockers removed. These lockers had a total estimated replacement value of between \$2,460 and \$4,100. A police investigation revealed that, under the supervision of the foreman of the district's preventive maintenance program, other district employees removed the lockers, which were allegedly sold to a private business owned and operated by two other district employees. Because the surplus property was completely removed from the district's inventory records, the district would not

have known that the surplus equipment was missing and had been improperly diverted if it had not been for an unknown informant. The district has dismissed three employees, two of whom have been arrested as a result of this incident.

The director of purchasing stated that he recently purchased computers and computer programs capable of recording the disposition of surplus equipment.

CONCLUSION

Contrary to good internal controls and its own policies, the Oakland Unified School District does not limit access to keys that open the district's facilities, does not store all of its building materials in secure areas, and does not physically inventory its assets regularly. As a result of these weaknesses, a district employee is known to have stolen approximately \$30,000 in equipment and materials. Also, the district has lost over \$9,200 in additional equipment and materials. Furthermore, the district does not maintain adequate control over its surplus equipment and so continues to be susceptible to theft.

RECOMMENDATIONS

To safeguard its assets, the Oakland Unified School District should take the following actions:

- Change all of its locks;
- Follow its already established policies for site master and non-master keys by giving site master keys to principals and custodians only, by complying with written procedures at each school for controlling the keys, by requiring that non-master keys be collected and secured in locked containers daily, and by assigning to a specific staff member responsibility for protecting non-master keys;
- Establish, in writing, a policy limiting to as few trustworthy individuals as possible access to its grand master keys;
- Store all of its inventory in physically secure areas and limit access to these areas to specifically authorized individuals with responsibility for safeguarding the items;
- Take a physical inventory of its assets annually; and

- Document the date and method of disposal of surplus equipment as required by state law.

IV

THE OAKLAND UNIFIED SCHOOL DISTRICT EXERCISES LITTLE OVERSIGHT OVER ITS CONTRACTS AND PAYMENTS FOR SERVICES

The Oakland Unified School District (district) does not follow prudent management practices and its own controls over contracting. Specifically, the district does not always award its consulting contracts prudently, does not follow its policy for setting contractors' rates of pay, and enters into contracts without proper approval. As a result of not awarding its contracts prudently, the district spent over \$160,000 more than it needed to for one consulting contract. In addition, the district exercises little control over its payments to consultants. Specifically, the accounts payable unit pays consultants without proper certification that the district has received services and allows unauthorized personnel to authorize payments. As a result, the district's accounts payable unit paid \$43,700 to three consultants without proper certification that the district had received the services. Further, the district paid over \$140,000 for services that it has no assurance it received and may be allowing employees to fraudulently authorize payments. Moreover, in one case, the district did not comply with requirements that it report to the State Teachers' Retirement System any payments that it makes to retirees with whom it contracts, and it may have erroneously paid an individual as an independent contractor and not an employee in at least its most recent of five contracts with him. As a result, it may be liable for a penalty of 100 percent of the individual's tax on his earnings from

this contract. Finally, the district paid one employee \$2,000 as a consultant although he provided consulting services that were already included in his job description. According to the interim business manager, the district is developing a new administrative bulletin that will provide policies and procedures for contract negotiations, required contract provisions, and signatures. The district plans to complete this bulletin by March 14, 1990.

The District's Consultant Contracting Practices Are Very Weak

The California Government Code, Section 53060, allows the district to purchase special and professional services without obtaining competitive bids. However, prudent business practices dictate that the district attempt to secure qualified contractors at the lowest possible cost. The district's policies for contracting for consultant services are specified in Administrative Bulletin 8037. This bulletin requires, among other things, that the level of expertise be classified to establish the pay rate. Depending on the level of expertise, the pay rate may be a predetermined hourly rate or, in some cases, a negotiable rate. The bulletin also requires that the request for consultants form be completed and signed by the deputy superintendent before any action to employ a consultant. The bulletin also states that no person may be employed as a consultant if the person is an employee in a pay status of the district in any capacity. In addition, the district's board of education (board) is responsible

for approving any consultant contracts. However, the district does not always follow its own policies and fails to obtain the board's approval of its consultant contracts.

We reviewed 27 consultant contracts entered into by the district and found 25 (93 percent) of the request for consultant forms did not indicate the level of expertise required to establish the consultant's rate of pay. In addition, 21 (78 percent) of the 27 contracts were authorized by the deputy superintendent after the contract start date. Also, 16 (59 percent) of the 27 contracts were authorized with a signature stamp or were authorized by someone else signing an authorized individual's name. Moreover, contrary to district policy, one of the consultants we reviewed was also an employee of the district during the term of his consultant contract. Additionally, 5 (19 percent) of the 27 contracts were never approved by the board, and 16 (59 percent) of the 27 contracts were approved by the board after the contract start date. Finally, one of the 27 contracts was never approved by the deputy superintendent, and another 2 of the 27 contracts were not approved by the requesting administrator. Examples of the district's lack of control over its contracts begin on page 68.

Because the district is not required to obtain competitive bids, does not adhere to its own policy for establishing the consultant's rate of pay, and does not properly obtain the deputy superintendent or the board's approval, the district sometimes obtains

services from contractors who are significantly more costly and less qualified than other contractors who could provide the same services. Further, district employees have been able to contract with any consultant they wish and pay them any amount they wish resulting in unnecessarily high costs for services that district employees could perform. Further, the district's internal controls over consultant contracts are so weak that district employees could easily contract with nonexistent consultants and fraudulently submit invoices to be paid by the district. Furthermore, by allowing individuals to sign other employees' names, the district may have diminished recourse against employees who fraudulently commit the district to contracts. Moreover, the district may not be able to enforce its contracts that are not properly signed because the other party could argue that there was no contract.

The District Exercises Little Control Over Payments to Consultants

The district's Administrative Bulletin 8037 requires the administrators who requested the consultant services to ensure that the services contracted for were in fact completed and that consultants sign statements of services performed. The administrators must also certify that the consultants have completed the work by signing statements of services performed. Further, good internal controls and district policy require that statements of services performed be signed with original signatures by specifically authorized individuals and that the contracts have all the proper approvals before payment.

Furthermore, good internal controls dictate that staff in the accounts payable unit review lists and signature specimens of individuals authorized to sign contracts and approve payments to verify that contracts have been properly approved and that signatures are authentic and made by individuals authorized to approve the specific expenditures before they issue payments. However, the district does not always adhere to these controls over consultant contracts.

We reviewed 105 payments to district consultants and found 16 instances (15 percent) where the statements of services performed were signed by the contractors before the services were actually rendered.¹ We also found 22 instances (21 percent) where the requesting administrators signed statements of services performed before the services were actually rendered. In some cases, the statements were signed even before the contract began. Also, the district made 50 (48 percent) of the 105 payments although the authorizing documents did not contain original signatures. In addition, of the 105 payments, 23 (22 percent) were made before the board's approval of the contracts. Further, the accounts payable unit did not have a list of individuals authorized to approve payments and did not have signature specimens for those individuals so that its staff could verify that expenditures were properly approved before they issued warrants. Finally, we reviewed the supporting documents for all

¹The majority of payments reviewed were selected as a result of allegations received by the Office of the Auditor General.

105 payments, but in 49 (47 percent) of the instances, the accounts payable unit made these payments without proper certification that the district had received the services for which it paid. The following are examples of contracts that illustrate the district's lack of controls over the awarding of contracts and payments to consultants.

Consultant on Asbestos

In July 1988, the district awarded a professional services contract costing approximately \$652,000 to the least qualified, most costly contractor. Regulations established under the Asbestos Hazard Emergency Response Act (AHERA) of 1986 require local educational agencies to conduct inspections of their school buildings to locate all asbestos material. The district obtained proposals from five firms to conduct a study of asbestos in the district's facilities. The proposed costs for conducting the study ranged from \$330,000 to \$652,000. The district's affirmative action compliance officer and acting senior architect interviewed four of the firms that submitted proposals and recommended awarding the contract to the firm with the most costly proposal. The district employees recommended this contractor even though the contractor appeared to be less qualified and less experienced than the other firms that proposed lower costs. Furthermore, the firm's proposal did not provide all the information required by the request for proposals. Nevertheless, the superintendent recommended that the board approve the contract with this firm because it presented "the most inclusive proposal" to provide the services.

We asked the senior architect at the School Facilities Planning Division of the State Department of Education to review all five proposals submitted to the district for the AHERA study. This individual has extensive experience in this field including experience reviewing asbestos consultant proposals with the Office of the State Architect. He is also an Environmental Protection Agency certified AHERA inspector and master planner involved with the AHERA program on a statewide basis for the last two and one-half years. Based on his review of the proposals, he concluded that the district awarded the contract to the least qualified contractor, which was also the highest costing contractor.

Furthermore, the contractor awarded the contract did not comply with the terms of the contract. Specifically, the contract required the firm to carry \$1 million of professional liability insurance and carry that insurance for five years after the completion of the contract. However, according to the district's acting senior architect, the contractor began work without obtaining the professional liability insurance required by the contract. The architect ordered the contractor to stop working until it obtained the proper insurance. However, according to a memorandum in the district's files dated August 12, 1988, the district's affirmative action compliance officer, under the direction of the assistant superintendent for business services, ordered the contractor to continue work. The contractor did not obtain the required insurance until August 29, 1988, 28 days after work began. When the insurance policy expired one year later, the

contractor did not renew the policy. In addition, the district could not provide us with evidence that the contractor obtained a new policy with a different firm. Consequently, the district is not protected by liability insurance for errors and omissions in the contractor's work.

Finally, the AHERA report produced by the contractor did not comply with the State's format for AHERA reports. Each AHERA report is required to contain a section evaluating the condition of the asbestos. The State's format calls for a rating scale of 1 to 7 with 7 being the most hazardous. However, the contractor used a scale of 1 to 4. As a result, the condition of the district's asbestos will have to be reevaluated if the district wants to use the information contained in the AHERA report to qualify for the State's Lease Purchase Asbestos Abatement Program.

Because the district is exempt by state law from obtaining competitive bids on professional services contracts, it is free to contract with whomever it chooses at any price. However, the district hired the least qualified contractor of the contractors that submitted proposals while paying between \$160,000 and \$320,000 more for the service than it would have had to pay other contractors. Furthermore, the contractor it hired has not complied with the terms of the contract and has produced a report that may require significant additional work and expense to meet state requirements.

Consultant on Procurement

The district retained the services of a consultant to assist the district in expanding procurement with minority owned businesses. The district paid this consultant approximately \$140,000 between September 1984 and July 1989 without evidence of board approved contracts. In some cases, written contracts existed that were not approved by the board. In other cases, we found no evidence that a written contract existed. Nevertheless, the consultant submitted invoices that the district paid. Moreover, the district paid these invoices without adequate evidence that it received all the services. Specifically, the invoices did not always clearly state what services had been provided, who provided the services, the specific dates the services were provided, and how much time was required to provide the services. Therefore, someone reviewing these invoices and approving payment of them, even if they worked closely with the consultant, without clarification would not be able to determine what they were paying for and whether the billing was appropriate.

In addition, district staff questioned the validity of invoices related to at least one previous contract with this consultant. Specifically, in a memorandum to the associate superintendent of business services, dated November 29, 1983, the district's legal advisor questioned the invoices from this same contractor. The memorandum states that invoices from this consultant claimed work performed that included meetings and consultation with the

district's legal staff. The district's legal advisor stated in the memorandum that he never met with the consultant nor did he recall that any of his staff met with the consultant and asked what services the consultant was billing for in this area. We could not find any further correspondence regarding this issue.

As a result of the district paying this consultant without board approval, the district spent at least \$140,000 for services that the board might not have wanted or needed. In addition, because the district paid the consultant without sufficient evidence of the services received, the district has no assurance that it actually received the services for which it has paid and may be allowing employees to fraudulently authorize payments.

Consultant to the
Office of Bilingual Education

Because the district does not have to competitively bid consultant contracts, the former coordinator of the district's Office of Bilingual Education (OBE) was able to hire a personal acquaintance without considering other prospects on more than one occasion under a consultant contract to perform clerical duties for the OBE. Specifically, this individual updated a community resource directory by telephoning the businesses listed in the old directory to see if they were still operating. In addition, she compiled the results of a survey. The district paid this contractor a total of \$7,200 for these two contracts despite the fact that both the contractor and the

coordinator signed the statements of services performed before the contract began. In addition, the coordinator did not indicate the level of expertise for the consultant and was, therefore, inappropriately able to set the pay rate at the level she decided. Also, the contracts were not approved by the deputy superintendent or the board before the start of the contracts. Finally, the contracts were approved with the deputy superintendent's signature stamp rather than an original signature.

Consultant Contract
With a District Employee

Contrary to district policy, the district entered into a consultant contract with an employee. The district paid this individual \$2,000 in consulting fees to perform the same duties that were required of his position with the district. Specifically, the individual was paid as a contractor to develop and edit staff development materials on bilingual programs. Similarly, according to the individual's job description, he was to produce video programs and classroom materials appropriate for bilingual classes. The employee was in a position that did not provide a salary during the summer months. However, although the employee was not formally assigned for the summer months, he was still an employee of the district.

Consultant Contracts With
a District Retiree

From February 1987 through May 1989, the district entered into five different consulting contracts with a district retiree who retired from the district in December 1986. The first contract required this individual to ensure compliance with certain federal requirements, to coordinate claims, and to relocate district offices and personnel during February 1987. For the second contract, this individual was to coordinate an installation of computers in March 1987. For the third contract, beginning in November 1987, this individual was to coordinate contract analysis, development, and negotiation for certain school programs and assist with budget analysis. This contract was between the district and the retiree, who was using his business name for this contract. The fourth contract with this individual was an extension of the third contract into 1988, and the duties required were essentially the same as those required for the previous contract. The last contract with this individual was also between the district and the individual, who was again using his business name. The terms of this contract state that the individual was to act as interim business services manager starting May 22, 1989, with no date specified for the end of the contract. The individual had performed the same duties for the district as the associate superintendent of business services before he retired from the district in December 1986.

As with many of the other contracts we reviewed, these contracts and payments contained some weaknesses. For example, we could find no evidence that the board approved the first contract. Further, the board did not approve the second contract until after the services had been rendered and did not approve the third and fourth contracts until after services had begun. Moreover, the accounts payable unit paid a total of \$16,250 to this consultant without proper certification that the services had been performed. For example, the accounts payable unit paid the consultant a total of \$9,950 although the contract originator did not sign the statements of services performed to indicate services had been received.

As well as these contracting weaknesses, the district did not comply with requirements that it report to the STRS any payments that it makes to retirees with whom it contracts. The California Education Code, Section 35046, states that the district's board may enter into consultant contracts with certain retired certificated employees of the district. However, this same section also states that retirees hired by consultant contract, as authorized by the section, are considered employees and are subject to the earning limitations specified in Section 23919 of the California Education Code. According to that section and allowed adjustments based on changes in the consumer price index, this individual, as an employee, could earn no more than \$7,746 from the school district in school year 1987-88, no more than \$7,952 in school year 1988-89, and no more than \$8,150 during the period from July 1 to December 31, 1989, and still receive his entire pension from

the STRS. In addition, the California Education Code, Section 23921, requires the school district, when it retains the services of a retiree, to report the retiree's earnings to the STRS. However, the section states that nothing in the section should be construed to make the district liable for any amount paid to the retiree in excess of the earnings limitations.

The district did not report the amounts it paid the individual or the individual's business for any of these contracts to the STRS and, therefore, it failed to comply with Section 23921 of the California Education Code. Specifically, because the first two consultant contracts were between the district and the individual, this individual was clearly an employee of the district according to the California Education Code, Section 35046. Moreover, although the individual received a handwritten statement from the STRS that said that his consultant work with the district would have no impact upon his STRS earnings provided that checks were made payable to his business and not to him, we believe that this is not the correct interpretation of the law. Specifically, the individual's business was a sole proprietorship, which he formed by filing a fictitious name statement and obtaining an employer identification number. Fictitious name statements are commonly filed by individuals who do business under a name other than their own name. However, the use of a fictitious name does not alter the nature of the contracts or the parties to the contract. Therefore, we conclude that, in fact, the contracts were between the district and the individual.

In addition to not reporting the amount it paid the retiree to STRS, the district may have erroneously paid the individual as an independent contractor and not an employee in at least its more recent contract with him. As a result, it may be liable for a penalty of 100 percent of the individual's tax on his earnings from this contract. Specifically, the STRS' Administrative Directive 77-9 states that retirees who are independent contractors are exempt from the earning limitation provisions in the California Education Code, Section 23919. However, the directive specifically states that whether an individual is an independent contractor is based on the facts and not necessarily on the written agreement. Furthermore, the STRS directive recommends that districts review their contracts with retirees and, where a doubt exists, obtain a legal opinion. It also states that, if the district does not report a retiree's earnings, it is understood that the district's legal counsel has supplied the district with an opinion that the retiree is an independent contractor whose contract conforms with common law rules used by the Internal Revenue Service. Moreover, the Internal Revenue Service's Publication 539 on employment taxes states that if an employer classifies an employee as an independent contractor without reasonable basis for doing so and, therefore, does not withhold income taxes from the employee's wages, the employer may be held liable by the Internal Revenue Service for a penalty of 100 percent of the tax.

The district failed to comply with the STRS' Administrative Directive 77-9 for at least the district's most recent contract with this individual. Specifically, the district's legal office did not review this contract to determine whether the individual was, in fact, an independent contractor or an employee, and we believe that there is a substantial risk that the Internal Revenue Service would conclude that the individual is an employee under common law guidelines rather than an independent contractor. The STRS also uses these guidelines to determine whether individuals are employees or independent contractors.

The last contract states that the individual is to manage the business services division, implement the 1989-90 budget process, produce and file both the district's tentative and final budget for fiscal year 1989-90, close the district's books, and complete other tasks as assigned by the superintendent. The fact that the California Education Code contains specific requirements regarding how and when the budget process must be conducted may support a conclusion that the district instructed the individual about how and when he was to perform his work and prescribed the sequence in which the individual had to perform his duties. In addition, the district established hours of work for the individual because he was required to perform his duties at the district during regular business hours and during scheduled board meetings. Additionally, the district paid this individual a daily rate for his services, not a lump sum for the services he was to provide. All of these are factors identified by the common law

guidelines used by the Internal Revenue Service and the STRS to determine that an individual is an employee rather than an independent contractor.

Also, the stream of contracts between the district and the individual may demonstrate a continuing relationship. Moreover, the last contract does not specify an ending date. Further, the duties that this individual performs under this contract are similar to those he performed as an employee of the district immediately before he retired. For example, the job description for the associate superintendent of business services states that he was responsible for managing the business services division and providing leadership in the areas of budgeting and accounting. As stated above, these are responsibilities the individual has under his existing contract. Furthermore, these responsibilities are clearly critical to the success and continuation of the district's business. Finally, the district's documents indicate that it was both the interim superintendent's and the board's intent to hire the individual, not to merely contract with an independent contractor to obtain the services. Again, these are all factors identified by the common law guidelines that the Internal Revenue Service and the STRS use to determine that an individual is an employee rather than an independent contractor.

The district has paid the retiree more than the limits allow retiree members of the STRS to earn and still receive their pensions. If he was an employee, the retiree may have to repay to the STRS the

amount he received from July 1, 1989, to December 31, 1989, from the district that exceeded the STRS limitation. Finally, the district may be liable for penalties on the income tax it failed to withhold from the payments it has made to this individual for the contracts discussed above.

Consultant to Act as
Interim Controller

The district entered into three different consultant contracts with one individual from December 1988 through June 1989. The first contract was to provide a motivational seminar but was not approved by the deputy superintendent and the board until after the services had begun. In addition, the deputy superintendent's approval was made with a signature stamp rather than an original signature. Finally, the district did not indicate on the request for consultant form the level of expertise the consultant had to have to establish his rate of pay. Consequently, the rate paid to the consultant was not limited by, and did not conform to, the district's rate schedule. Finally, the district paid the consultant \$750 for the three-day seminar despite the fact that the statement of services performed was signed by both the consultant and the contract originator before the services were actually rendered.

The second contract with this individual for the period March 1, 1989, to June 30, 1989, was to analyze programs to determine proper allocation of state and federal funds. Again, the deputy

superintendent did not approve the contract until after the contract start date. Also, the district did not specify the consultant's level of expertise. Consequently, the rate paid to the consultant was not limited by, and did not conform to, the district's consultant pay rate schedule. Finally, the district paid this consultant approximately \$5,600 on this contract despite the fact that the consultant and the deputy superintendent signed the statements of services provided before the services were rendered.

The third contract with this individual was to act as interim controller starting June 1, 1989, with no date specified for the end of the contract. As with the first contract, approval consisted of the deputy superintendent's signature stamp rather than an original signature. Also, as in the previous two contracts, the district did not indicate the level of expertise for which the contractor should qualify. Consequently, the rate paid to the consultant was not limited by, and did not conform to, the district's consultant pay rate schedule. Furthermore, we could not determine whether the district assessed the qualifications of the contractor to act as the district's interim controller. The district paid this contractor approximately \$13,900 even though the contractor signed the statements of services performed before he provided services and despite improper signatures on the requests for payment. In fact, in one case, the contractor approved his own request for payment.

The District's Steps To Improve Its Contracting Practices

According to the interim business manager, the district is developing a new administrative bulletin that will provide policies and procedures for contract negotiations, required contract provisions, and signatures. The district plans to complete this bulletin by March 14, 1990.

CONCLUSION

The Oakland Unified School District does not follow prudent management practices and its own controls over contracting. Specifically, the district does not always award its consulting contracts prudently, does not follow its policy for setting contractors' rates of pay, and enters into contracts without proper approval. As a result of not awarding its contracts prudently, the district spent over \$160,000 more than it needed to for one consulting contract. In addition, the district exercises little control over its payments to consultants. Specifically, the accounts payable unit pays consultants without proper certification that the district has received services and allows unauthorized personnel to authorize payments. As a result, the district's accounts payable unit paid \$43,700 to three consultants without proper certification that the district had received the services. Further, the district paid over \$140,000 for services that it

has no assurance it received and may be allowing employees to fraudulently authorize payments. Moreover, in one case, the district did not comply with requirements that it report to the State Teachers' Retirement System any payments that it makes to retirees with whom it contracts, and it may have erroneously paid an individual as an independent contractor and not an employee in at least its most recent of five contracts with him. As a result, it may be liable for a penalty of 100 percent of the individual's tax on his earnings from this contract. Finally, the district paid one employee \$2,000 as a consultant although he provided consulting services that were already included in his job description. According to the interim business manager, the district is developing a new administrative bulletin that will provide policies and procedures for contract negotiations, required contract provisions, and signatures. The district plans to complete this bulletin by March 14, 1990.

RECOMMENDATIONS

To ensure that it only pays for services it requires and that it has received, the Oakland Unified School District should take the following actions:

- Obtain the prior written approval of the district's board of education and the deputy superintendent before employing a consultant;
- Prohibit employees from authorizing payment of an invoice unless the employee has personal knowledge that the services have been provided and unless the invoice clearly states what services have been provided, the person or persons providing the services, the dates the services were provided, and how much time was required to provide each service;
- Prohibit employees from signing other employees' names and using signature stamps to commit the district to contracts and to approve payments;
- Establish a policy that requires the accounts payable unit to maintain a list and signature specimens of individuals who are authorized to sign contracts and approve payments and to verify that contracts are properly approved and services have been received before issuing payments; and
- Comply with requirements related to contracting with employees and retirees.

To ensure that the district contracts with consultants with the proper qualifications and that the consultant is paid in accordance with the district's consultant rate schedule, the district should follow its own policy and classify the required level of expertise on the request for consultant services form and pay the consultant according to the expert classification.

To ensure that the district contracts with qualified consultants at a reasonable cost, the Legislature should consider enacting provisions of the law, similar to provisions governing state contracting, requiring school districts to obtain at least three competitive bids when awarding consultant contracts when such services are widely available. In addition, the district should develop its own procedures to ensure that consultant contracts are awarded to those contractors who are qualified to provide the best service at a competitive cost.

V

**THE OAKLAND UNIFIED SCHOOL DISTRICT
COMPLIES WITH SOME ADDITIONAL STATE REQUIREMENTS
BUT NOT WITH OTHERS**

The Oakland Unified School District (district) appears to comply with state restrictions on the number of administrators it can have in proportion to the number of teachers it has. It also appears to comply with some of the state requirements for disposing of its surplus real property. However, the district did not obtain required community involvement in decisions regarding four pieces of surplus real property before it disposed of them in 1988 and 1989. As a result, the district did not afford the community the appropriate opportunities to participate in decisions regarding the use of public property, and the sale of the properties could be subject to legal challenges and possible invalidation.

In addition, the district does not comply with all state requirements for reporting its student attendance. As a result, it may not be receiving all the funds it is entitled to receive, has suffered delays in receiving funds from the State, and has lost over \$65,000 in interest it would have earned if it had amended its attendance reports promptly. Further, the district does not comply with state requirements that it ensure that designated employees file statements of their economic interests in assets or businesses. As a result, district employees could be approving expenditures that they have a personal interest in, and the district would not be aware of the potential conflict of interest.

The District Appears To Comply
With Restrictions on the Number
of Administrators It Employs

The California Education Code, Section 41402, specifies that unified school districts may have no more than 8 certificated administrators for every 100 certificated teachers. If these districts fail to comply with this restriction, they are subject to reductions in their funding from the State Department of Education. Based on our review of the district's records for its certificated employees as of October 23, 1989, and explanations and clarifications provided to us by the district's director of research, evaluations, and testing, it appears that the district complies with restrictions on the number of administrators it can have in proportion to the number of teachers it has.

The District Does Not Comply With
All State Laws Governing the
Disposal of Surplus Real Property

The California Education Code, Section 39360 et seq., permits the district's board of education (board) to sell its real property if the property is not or will not be needed by the district for classrooms but establishes procedures to which the district must adhere. These procedures specify that the district must offer property to specific institutions before it makes the property available to the general public. First, the district must offer surplus real property for park or recreational purposes. Second, it must offer the property

to the director of the State Department of General Services, the Regents of the University of California, the Trustees of the California State University, the county and city in which the property is located, and to any public housing authority in the county in which the property is located. The law also specifies requirements for publishing notices of intention to sell and outlines specific procedures for receiving, opening, and accepting bids at public meetings. However, the California Education Code, Section 33050, allows the district to obtain waivers from the bid process from the State Board of Education.

In addition, the California Education Code, Section 39296 et seq., requires the district's board to appoint a district advisory committee to advise it in the development of policies and procedures governing the use or disposition of surplus property before it sells any excess real property. The committee must be composed of from 7 to 11 members of the community, including teachers and administrators. In establishing this requirement, it was the Legislature's intent to have the community involved before decisions were made concerning the use of surplus space, thus, avoiding community conflict.

The district owns approximately 110 sites, including school sites and administration sites. In 1988, the district sold three pieces of property to the City of Oakland for a total of \$84,500. In addition, in 1989, the district sold its North Oak Knoll property to WPN Associates for \$1.6 million. The board has also officially identified the Grant High School site, the Dag Hammarskjold site, and

the Clawson School site as surplus and has resolved to sell them. The board obtained a waiver from the State Department of Education from the bid process on the Grant High School site. The waiver is valid until April 7, 1990. The district offered this site as a development opportunity in April 1989, but, as of December 27, 1989, the district has not sold this property. Although the district also obtained a waiver from the bid process on its Dag Hammarskjold site, the district offered it for sale, at a minimum acceptable price of \$3 million, through the regular bid process. However, by the August 9, 1989, deadline for receiving bids, the district had received no bids. The district is again offering this property through the regular bid process at a minimum acceptable price of \$2.5 million and has set January 24, 1990, as the deadline for receiving bids. Although the district resolved to sell the Clawson School site, as of December 27, 1989, it has not sold the property, but has offered the property to other public agencies.

We reviewed the district's procedures for disposing of the above seven pieces of property and found that the district generally complied with requirements for offering the property for sale and for obtaining and opening bids. However, the district did not always comply with the state law requiring that the district appoint a district advisory committee before it sells real property. Specifically, the district violated the California Education Code when it sold the three pieces of property in 1988 for \$84,500 because it did not establish a district advisory committee that complied with this law

until June 7, 1989. Although the district's board claimed in its resolution establishing the committee that a citizens' advisory committee created in 1979 fulfilled the requirements of the California Education Code, the committee established in 1979 included 140 members--significantly more than the maximum of 11 allowed by law.

Moreover, this committee issued its final report on August 13, 1979, and did not address the disposal of either the three properties above or the North Oak Knoll property. In addition, although the district's advisory committee, established on June 7, 1989, recommended the sale of the North Oak Knoll property on July 18, 1989, the district opened the bids it had received on the property during a public meeting on May 17, 1989, and accepted one of the bids on May 24, 1989, before the district established the committee. Although the sale of the property was not concluded until August 30, 1989, we believe that the district violated the California Education Code because it already had a contract to sell the property.

As a result of not complying with the requirement for a district advisory committee, the district did not afford the community appropriate opportunities to participate in decisions regarding the use of public property. In addition, the sale of this property could be subject to legal challenges and possible invalidation.

The District Does Not Comply
With State Requirements for
Reporting Student Attendance

The State Department of Education (SDE) apportioned an estimated \$14.7 billion to schools in fiscal year 1988-89. The SDE relies on the school districts and the county superintendents to prepare and forward the attendance reports that the SDE uses to determine the amount of money each school district will receive. Because over 80 percent of the money the district receives is based on attendance, only by reporting accurate average daily attendance (ADA) can the district receive the money that it is entitled to receive. In addition to merely counting the number of students in attendance, the district's schools must determine why students are absent. For example, only absences due to illness, quarantine, medical or dental appointments, attending funeral services of a member of the immediate family, and certain other types of absences are eligible in calculating ADA for claiming state apportionments.

The SDE has established requirements for attendance reporting that includes deadlines by when the district must submit its attendance reports. If the district fails to meet these deadlines, it receives funds from the State later than if it meets the deadlines. For example, the SDE requires school districts to amend attendance reports for each fiscal year by October in the following year to receive an apportionment correction in the following February. If the districts miss the October deadline, they must amend the reports by April to

receive an apportionment correction in the following June. Until July 1, 1989, districts had up to three years to amend their attendance reports. However, districts must now submit any amendments to their attendance reports within one year to receive additional funds.

In March 1989, the Deloitte Haskins & Sells accounting firm reported to the county superintendent that the district was incorrectly reporting its ADA. In addition, the State Controller's Office recently reviewed the district's ADA reporting for fiscal year 1987-88 and found that the district does not promptly determine the cause of student absences. As a result, the district understates its ADA and may not be receiving all the funds it is entitled to receive.

The district has identified several weaknesses that contribute to its inaccurate reports. Specifically, on April 27, 1989, an attendance accounting task force reported to the interim superintendent that there were no formal procedures for attendance personnel at the school sites, that attendance manuals had not been updated since August 1982, and that many schools were without trained attendance personnel. In fact, the district has reduced the number of staff it has dedicated to attendance accounting and truancy reduction over the past three years. For example, the district employed 24.2 full-time equivalent attendance personnel and site clerks in fiscal year 1988-89 as compared with 29.6 full-time equivalent attendance personnel and site clerks in fiscal year 1985-86. The task force, which was made up of representatives of the attendance accounting department and the

internal audit department, the director of curriculum programs, the coordinator of alternate programs and "at risk" services, and a consultant, made several recommendations to the interim superintendent. However, the district did not provide any concrete evidence that it has implemented these recommendations.

In addition to the problems already identified, we found that the district does not promptly amend its attendance reports to the State. Specifically, the district failed to meet the October 15, 1987, and April 1, 1988, deadlines for amending its second-period report for fiscal year 1986-87. The district amended its report on April 28, 1988, or 27 days after the second deadline. As a result, it received an apportionment correction totaling approximately \$902,000 in February 1989 instead of in February 1988. In addition, the district lost over \$65,000 that it could have received in interest had it amended its report by the first deadline.

Also, the district failed to meet the October 14, 1988, and April 3, 1989, deadlines for amending its second-period report for fiscal year 1987-88. It did not submit its amendment for this report until August 15, 1989, or approximately four months after the second deadline. As a result, the district will not receive an apportionment correction of approximately \$219,000 until February 1990 instead of receiving it in February 1989. Further, the district will lose interest that it could have earned on the \$219,000 if it had amended its report on time.

**The District Does Not Ensure
That Its Employees File
Statements of Economic Interest**

The Political Reform Act requires the district to adopt and continually update a conflict-of-interest code that specifies which employees must file statements of their economic interests. However, the district has not updated its conflict-of-interest code since 1979. Of the 31 positions designated in the district's code as requiring statements of economic interest, only 23 currently exist. Because the district has not kept its conflict-of-interest code current, we could not determine the exact number of positions that require statements of economic interest.

In addition, Regulation 18115 of the Fair Political Practices Commission requires the person or agency (filing officer) that receives statements of economic interest to compile and maintain a current list of all statements filed and to report apparent violations of the Political Reform Act to the appropriate agencies. However, when we reviewed the statements filed at the district during 1984 through 1989, we found that, in 50 cases, employees failed to file required statements. The district's filing officer has not reported this violation to the Fair Political Practices Commission. In addition, the filing officer does not retain a current list of all statements filed to ensure that employees submit required statements. As a result of these weaknesses, the district may not identify employees who should file statements of economic interest. Thus, some district employees

could be approving expenditures that they have a personal interest in, and the district would not be aware of the potential conflict of interest.

CONCLUSION

The Oakland Unified School District appears to comply with state restrictions on the number of administrators it can have in proportion to the number of teachers it has. It also appears to comply with some of the state requirements for disposing of its surplus real property. However, the district did not obtain required community involvement in decisions regarding four pieces of surplus real property before it disposed of them in 1988 and 1989. As a result, the district did not afford the community the appropriate opportunities to participate in decisions regarding the use of public property, and the sale of the properties could be subject to legal challenges and possible invalidation.

In addition, the district does not comply with all state requirements for reporting its student attendance. As a result, it may not be receiving all the funds it is entitled to receive, has suffered delays in receiving funds from the State, and has lost over \$65,000 in interest it would have earned if it had amended its attendance reports promptly. Further, the district does not comply with state requirements

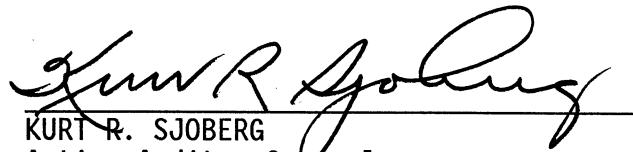
that it ensure that designated employees file statements of their economic interests in assets or businesses. As a result, district employees could be approving expenditures that they have a personal interest in, and the district would not be aware of the potential conflict of interest.

RECOMMENDATION

The Oakland Unified School District should comply with state laws and other requirements governing the disposition of surplus real property, the reporting of student attendance, and the filing of statements of economic interest.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



KURT R. SJOBERG
Acting Auditor General

Date: January 16, 1990

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OAKLAND UNIFIED SCHOOL DISTRICT

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January 12, 1990

Mr. Kurt Sjoberg, Acting Auditor General
Office of the Auditor General
State of California
660 J Street, Suite 300
Sacramento, CA 95814

Re: Report on the Management Practices
of the Oakland Unified School District

Dear Mr. Sjoberg:

On behalf of the Oakland Unified School District I would like to thank you and your staff for your report on the District's management practices. Along with the additional management report required by Assembly Bill 2525, it will enable the District to develop and implement sound management practices in order to rectify the deficiencies highlighted in your report and to present the recovery plan required by the state legislation. As you know, I took office as Superintendent of Schools on January 1, 1990, with a clear mandate from the Oakland Board of Education to restore the school system to a position of academic excellence and sound management practices.

Because we did not receive a draft copy of your Report until January 8, we have not had the opportunity to analyze it and to respond to it in great detail. Accordingly, I will confine this response to a broad statement of our agreements and disagreements with the conclusions and recommendations contained in your Report. In doing so we will track the Report's format and order.

In responding to the Report we note that the problems identified therein are not necessarily representative of the District's practice. Rather, as your staff has indicated, the investigation focused on areas of District practice and examples of alleged misconduct brought to its attention by District employees, members of the public, and others. ① **

* Office of the Auditor General's comments are on page 113.

Response to Finding I:

"THE OAKLAND UNIFIED SCHOOL DISTRICT DOES NOT ADEQUATELY CONTROL ITS PAYROLL"

In its first finding the report points out several weaknesses in the District's handling of its payroll. These deficiencies flow from both the failure to adopt adequate policies, and the failure to enforce policies in place. In order to rectify these problems and to respond to the specific concerns raised in the report the District will develop and implement sound payroll practices.

The Report indicates that the District has often issued payroll warrants without proper approval. Although the District's payroll procedures require all employees to sign and date their time reports, the investigation carried out by the Office of the Auditor General indicates that many time reports are submitted unsigned, or with one employee signing for another. Additionally, the audit indicates that although supervisors' signatures are required on all time reports, many warrants have been paid despite the lack of such signatures, or when supervisors' signatures have been signed by another employee or produced by rubber stamp.

The District will take the following actions to resolve this problem:

1. Policy requiring all employees to sign their own timereports will be re-emphasized and distributed to all employees. All supervisors will be advised that they will be held personally accountable for insuring that employee time reports from their departments are properly signed.
2. District policy requiring supervisors to personally sign all time reports will be re-emphasized and enforced.
3. All supervisors will be required to submit signature specimens to the payroll department. The payroll department will be required to verify supervisor signatures on an ongoing basis.

The Report also found that District policies requiring all absences to be supported by properly signed absence reports have not been followed. Additionally, the Report indicates that absences taken for medical reasons are sometimes not appropriately supported by physicians' statements. The Report also indicates that abuses have occurred with respect to time taken off for funeral leave or to answer criminal charges in court. In order to remedy these problems, the District has taken or will take the following actions:

1. The District will not accept absence reports which are not properly signed and have not been properly approved by an authorized supervisor.

2. Supervisors will be advised that they are personally accountable for the approval of employee absence reports and that such accountability includes the necessity to make reasonable inquiry to verify the accuracy of such reports.

3. The District will re-emphasize its policy of not accepting physicians' statements which do not include the physician's name, address and telephone number.

4. The District is currently in the process of obtaining a human resource computer system in order to control and manage payroll and other personnel functions. Once this system is on line, it will allow employees in the payroll department to verify that an employee is entitled to the time reflected on an absence report.

The Report also indicates that the District has inadequate controls for authorizing and paying overtime. The problems in this area include an outdated listing of situations and employees for whom overtime is authorized, and a lack of control over duplicate overtime reporting. In order to resolve these problems, the District will take the following actions:

1. A review will be made and policy will be established indicating under what circumstances and for which employees overtime is authorized.

2. The development of the human resources computer system mentioned above will prevent duplicate payments for the same overtime.

The Report indicates that the District has sometimes miscalculated salary adjustments and/or retroactive salary increases. These problems appear to flow from human error, and the District is making efforts to insure better supervision and management in the payroll department.

The Report also addresses areas in the administration of payroll where employees have had the opportunity and in some cases have committed fraud against the District. In particular, the Report addresses one incident where an employee submitted time reports to the District in which she claimed to have been working at times when she was actually working for another employer. In another instance the Report documents a conspiracy involving a payroll employee and several custodians to fraudulently submit and pay for alleged overtime work.

In response to the first situation, the District has investigated this matter and has determined that although the time reports as submitted were false, the employee actually performed the amount of work claimed. It appears that the employee and her supervisor had agreed to submit the false time reports in order to obtain compensation for work actually performed by the employee while she was on an unpaid leave. The District will reprimand these employees for improper circumvention of proper payroll procedures, but does not intend to seek return of the approximately \$3,000 paid to the employee because it believes that she did earn this payment.

With respect to the incident involving the payroll employee and the custodians, the District has already taken action to recover the funds from the custodians. The payroll department employee was arrested, and her employment with the District has been terminated. Additionally, the District is considering a civil action against her.

In addition to the actions mentioned above, the District will follow the Report's recommendations that employees who process payroll documents do not handle payroll warrants after they have been issued and that supervisors who approve time reports do not receive and distribute payroll warrants. The District will also attempt to recover all funds identified by the report as having been improperly paid.

Response to Finding II:

"THE OAKLAND UNIFIED SCHOOL DISTRICT HAS POOR PERSONNEL MANAGEMENT PRACTICES"

The Report states that the District sometimes hires individuals who have been convicted of crimes for positions that require a high level of trust. The Report also indicates that the District has not submitted the fingerprints of some classified employees to the California Information Bureau of the California Department of Justice to obtain criminal histories, although District policy requires that this be done. The Report further indicates that in some instances persons who have been convicted of serious crimes have been hired by the District. In one of those cases, an employee had been convicted of a crime which disqualified him from District employment under California Education Code section 45123, although the crime for which this employee had been convicted was not covered by section 45123 at the time he was hired. The same employee was convicted of another crime which disqualified him from District employment in May 1989, but the District did not learn of his conviction and did not terminate his employment until December 1989. These

issues may be difficult for the District to resolve, because it is impractical to review the records of approximately 6,900 employees each time the legislature adds new provisions to legislation forbidding the employment of persons convicted of certain crimes. Likewise, the District is not always advised when a current employee is arrested or convicted of a crime.

In order to deal with problems mentioned in this section, the District has taken or will take the following actions:

1. The District will enforce its policy requiring the submission of the fingerprints of all employees to the California Department of Justice.
2. The District will work with the Oakland Police Department and the Alameda County District Attorney to attempt to establish a system by which the District is advised when one of its employees is arrested and/or convicted of any criminal offense.
3. Within 90 days the District will adopt and enforce a policy which will supplement state law by disqualifying persons convicted of certain crimes from being employed in certain positions in the District.
4. The District will attempt to establish a procedure which will allow it to determine whether any of its existing employees have been convicted of disqualifying crimes since they first became employed by the District or have been convicted of crimes added by the state legislature to the list of those which disqualify persons from District employment.

The Report has also pointed to two instances when administrators have had salaries established outside District personnel policies. In order to deal with this problem, within 60 days the District will establish and implement a policy clearly specifying under what circumstances and with whose approval an employee may be placed outside the established salary range for the position occupied by that employee.

The Report also indicates that on some occasions the District's contracts with high level administrators have been ambiguous about whether District policies relating to leave and other fringe benefits are applicable to the employee covered by the individual contract. The District's past practice has been that those benefits established by District policy as applicable to its managers and administrators apply also to those high level administrators whose employment is governed by individual contracts. Nonetheless, the District recognizes that it is poor management practice to allow such ambiguities to exist.

Accordingly, in its most recent contracts with high level administrators, specifically the District's new Superintendent and General Counsel, language was included to clearly articulate which District benefit policies are applicable to the employee involved.

The Report also indicates that the District's contracts with its high level administrators do not indicate whether such administrators are entitled to compensatory time off for attending meetings and other functions. In one instance, compensatory time off was granted to a high level administrator pursuant to the discretionary authority granted to the Superintendent of Schools. Within 60 days, the District will adopt and enforce a clear policy as to the availability of compensatory time off for its non-union employees.

The Report points out that on one occasion the District allowed an employee to obtain a sabbatical leave without following established District procedure. The District acknowledges that sabbatical policies were not followed in that instance. However, the District will be able to enforce its sabbatical policies with the employee involved. In the past employees taking sabbatical have been allowed and have been required to fulfill their sabbatical leave obligations to the District over a period of more than two consecutive years following the completion of the sabbatical. The employee identified in the Report has been advised that she must complete her sabbatical obligations during the 1990-91 school year or repay \$19,484.00 advanced to her during her sabbatical. If she does not comply with these requirements, the District will take legal action to enforce its rights in this matter. The Report also indicates that the same employee who was granted a sabbatical outside established procedures was paid more than required upon her return to work for the District following her sabbatical because she and her representative convinced the District that it had not properly reassigned her to a teaching position. The District believes that the purported failure to properly reassign this employee was due at least in part to confusion regarding her sabbatical and that it has in place appropriate procedures for the reassignment of certificated and classified employees. In fact, the District properly reassigned many certificated and classified employees for the current school year.

The Report demonstrates serious weaknesses in the application of District policy relating to doctoral stipends. In particular, the report points to several apparent misapplications of policies allowing employees to obtain "equivalency units" for up to 30 of the 90 semester units required for a doctoral stipend. These failures appear to be

due at least in part to the District's improper evaluation of the workshop, work, study, or travel activity submitted for equivalency units and the failure to have personnel at an appropriate level evaluate the requests for doctoral stipends. In order to rectify this problem the District will take the following actions:

1. It will, through high ranking administrators reporting directly to the Superintendent, review the qualifications of all employees who presently receive doctoral stipends based in part upon equivalency units. In cases where it determines that the stipends were improperly paid, it will take all allowable and appropriate action to recover these amounts and will discipline any employees who have engaged in misconduct.
2. Within 60 days, it will establish a new procedure for reviewing requests for doctoral stipends. This procedure will insure that the persons with responsibility to approve such requests are not junior to the persons submitting the requests.

Response to Finding III:

"THE OAKLAND UNIFIED SCHOOL DISTRICT DOES NOT SAFEGUARD ITS ASSETS"

The first issue addressed by this section concerns the District's policies regarding access to keys for District facilities. The Report points out that although the District has established policies with respect to site master keys and other keys, not all schools follow them. Departures from policy include allowing persons other than principals and custodians to possess site master keys, failure of some schools to have written policies controlling the keys at that site, failure of some schools to assign staff members responsibility to protect keys, and failure to collect and secure keys on a daily basis. Additionally, the Report indicates that the District has no specific policy covering the District's grand master keys, which open all District facilities. The Report also indicates that a large number of District employees in a wide variety of positions currently have grand master keys.

The results of the District's failure to formulate and enforce policy in this area is that District facilities are more susceptible to improper entry and theft. It appears that some burglaries at District facilities may have been committed by people with keys to those facilities. Furthermore, one District employee, with a lengthy past arrest record, had access to a grand master key and has been arrested and has pled guilty to charges of stealing District property. In order to deal with this problem the District will, within 90 days: (1) develop and

begin to implement a systematic policy relating to the issuance, security, and use of grand master keys, site master keys, and other keys; and (2) study and begin to implement a program to deal with the current and projected future effects of the security problems noted in the Auditor General's Report.

The Report indicates that some property, specifically lumber, is not stored in a secure area. The Report further indicates that the District has not done a complete physical inventory of its assets in over 11 years. Additionally, the report indicates that the District does not properly inventory equipment designated as surplus.

In order to deal with these problems, the District will take the following actions:

1. Store all of its inventory in physically secure areas with access limited to authorized individuals who may be held accountable for the property.
2. Develop, within 90 days, a plan for taking regular inventories of its physical assets.
3. Develop, within 90 days, a system for maintaining an inventory of its surplus property in order to enable the District to access up-to-date information as to the status of such property, including, when applicable, the date, means, and compensation relating to its disposal.

Response to Finding IV:

"THE OAKLAND UNIFIED SCHOOL DISTRICT EXERCISES LITTLE OVERSIGHT OVER ITS CONTRACTS AND PAYMENTS FOR SERVICES"

The first issue addressed in this section of the Report concerns the District's consultancy contracting practices. The report shows that the District often violates its own policy by allowing consultants to be employed without the approval of the Deputy Superintendent, by allowing one District employee to be employed as a consultant and by employing consultants without Board approval. The Report indicates that in many of the contracts the Auditor General reviewed, the District's request forms did not indicate how the consultant's rate of pay was established, contracts were authorized by the Administration after the contract start date, and contracts were authorized by a signature done with a signature stamp or signed by an unauthorized individual. The Report points out that lack of proper controls over consultant contracts may often lead to the payment of excessive costs for consultant services. The Report also indicates that the District's policies make the District susceptible to fraud on the part of dishonest consultants and employees.

The Report also finds that the District does not enforce policies which require the administrator who requested the services to ensure that the services are in fact completed and that the consultant sign a statement of services performed. The results of this departure from policy means that consultants may be paid for work which is not actually completed. In some cases studied the statements of services performed were signed before the services were actually rendered. In several of these cases, the requesting administrator signed the statements of performance before the dates set for the actual performance. Finally, because the Accounts Payable unit does not maintain a list of individuals authorized to approve payments to consultants and does not have signature specimens on file for those individuals, it is apparent that improper payments can be made.

In one example studied by the Auditor General, the District approved a contract for consultant work on asbestos abatement, awarding the contract to the highest bidder whose proposal indicated that he was the least qualified contractor. This contractor did not comply with all terms of the agreement, failing to obtain the required insurance or produce reports consistent with the State's format.

In another example studied, the District contracted over a five-year period with a consultant to assist it in expanding procurement with minority-owned businesses. In the case of this consultant, it appears that the Board did not approve all of the contracts and in some cases no contracts existed. Nonetheless, the consultant's bills were paid, often without adequate evidence that all services were rendered.

In order to rectify the problems identified by this section of the Auditor General's report, the District will take the following actions:

1. Within 90 days, the District will adopt a comprehensive policy relating to the use and employment of consultants. In general, this policy will both reduce the use of consultants and tighten controls over their use when appropriate.

2. This policy will include, at a minimum, the following provisions:

- a. A clear statement as to what circumstances will justify District employment of a consultant.

- b. The designation of who in the District is authorized to approve consultancy contracts at various levels of cost.

c. A statement as to what approvals must be obtained, in writing, before work on the consultancy contract may begin.

d. Provisions for ensuring enforcement of the contract, including a specification as to who must approve the consultant's billings.

e. The requirement that the Accounts Payable Department have, for each consultancy contract, the name and a specimen signature of the person authorized to approve payments on that contract.

3. The District will investigate the circumstances leading to the award of the consultancy contract for asbestos abatement work identified in the Auditor General's report. Following that investigation, the District will, if appropriate, take appropriate disciplinary action against employees responsible for any misconduct, and take appropriate legal action to recover funds which may have been paid contrary to legal or contractual requirements.

4. The District will also investigate the circumstances leading to the award of the contracts identified in the Report for the retention of a consultant to assist in expanding procurement of minority-owned businesses. Following that investigation, the District will, if appropriate, take appropriate disciplinary action against employees involved in any misconduct and legal action to recover funds improperly obtained in violation of legal or contractual requirements.

The Report also concludes that the District failed to follow proper procedures when it contracted with a retired employee to consult on the District's business services. Specifically, the report indicates that the District failed to follow Education Code requirements that it report the retiree's earnings to the State Teachers' Retirement System, or in the alternative obtain an opinion from its legal counsel that the retiree is an independent contractor within the meaning of Internal Revenue Service Publication 539 rather than an employee. The Report indicates that the District may have erroneously paid that retired employee as a contractor rather than as an individual employee.

When it retained the services of the individual in question as a consultant rather than as an employee, the District relied upon a letter which that individual had obtained from STRS indicating that the arrangement was proper and upon its own expectation at the time the agreement was reached that it would be a short term working relationship which would terminate soon

after the anticipated hiring of a new Superintendent. The relationship continued longer than expected because of the delay in appointing a new Superintendent which in turn delayed the appointment of a person to act as Director of Business Services. The District will carefully examine this issue over the next 30 days in order to determine whether it agrees with the Auditor General's conclusion that its actions have been contrary to required legal procedures.

Response to Finding V:

"THE OAKLAND UNIFIED SCHOOL DISTRICT COMPLIES WITH SOME ADDITIONAL STATE REQUIREMENTS BUT NOT WITH OTHERS"

This section of the Report addresses State requirements relating to the number of certificated administrators employed by the District; procedures for disposing of surplus real property; requirements for reporting student attendance; and regulations that designated employees file statements of their economic interests.

The Report concludes that the District complies with policies relating to the number of certificated administrators it may employ and with most requirements relating to the sale of surplus real property. However, the Report concludes that the District did not always comply with the State law requiring it to appoint an Advisory Committee before it sells real property. Specifically, the report indicates that this requirement was not followed when the District sold three pieces of property in 1988. The Report indicates that the Advisory Committee established at that time included many more members than the maximum allowed by law and did not, in its final report, address the disposal of three pieces of property sold before that date and one sold afterwards. A new Committee, which recommended the sale of the fourth property mentioned above, was not established until after bids had been received on that property and one of the bids had been accepted. The District will be more careful to comply with the requirements concerning advisory committees when future surplus property sales are contemplated.

The Report points out shortcomings in the District's report of average daily attendance and in its accounting for student absences. It points out that a District Task Force had concluded in April 1989 that there were no formal procedures for attendance personnel at the school sites, that attendance manuals had not been updated since 1982, and that many schools lacked trained attendance personnel. The Report indicates that the Auditor General has not received evidence that the Task Force's recommendations had been put in place. The Report also indicates that the District has failed to meet deadlines for

Mr. Kurt Sjoberg, Acting Auditor General
Re: Report on the Management Practices
of the Oakland Unified School District
January 12, 1990 Page 12

amending its attendance reports to the State and, as a result, received apportionment correction funding a year later than it would otherwise and forfeited the interest that it could have earned on these funds.

Within 90 days, the District will review the results of the Attendance Task Force, conduct further investigations as necessary, and begin to implement a program to ensure that average daily attendance is accurately established and timely reported.

The Report indicates that the District has not, contrary to State law, updated its Conflict of Interest Code since 1979. As a result, eight of the 31 positions designated in the District's Code as requiring Statements of Economic Interest no longer exist. Additionally, in a number of cases, employees have failed to file required statements, and the District's filing officer has not reported these violations to the California Fair Political Practices Commission. As a result of these problems, the District may not have identified employees who should not be allowed to approve certain expenditures because of potential conflicts of interest.

Within 60 days, the District will amend its Conflict of Interest Code and adopt policies to ensure that the required Statements of Economic Interest are timely and properly filed.

The foregoing constitutes the District's initial response to the Auditor General's Report No. F-931.1 on its management practices. Again, I would like to thank you and your staff for the thorough work done to compile evidence of the District's weaknesses and shortcomings in policy development and implementation, and for your thoughtful recommendations on areas for improvement. I am confident that the responses I have outlined above, when implemented, will allow the District to comply with the requirements of Assembly Bill 2525 in the development of a full scale recovery plan to assure quality education for the students of Oakland. We look forward to working with you on this and future endeavors.

Very truly yours,


Richard P. Mesa
Superintendent of Schools

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THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS ON THE
RESPONSE FROM THE OAKLAND UNIFIED SCHOOL DISTRICT

- (1) Although we did not select our samples of transactions randomly to make statistical projections, most of our tests went beyond merely investigating allegations we received. In fact, many of our findings were not based upon allegations we received but rather on observations made by our auditors.

In each area we audited, we reviewed the district's policies, procedures, and internal controls. We believe that our findings are pervasive and representative of the district's practices. Our findings were not isolated instances but were demonstrative of systematic breakdowns of the district's management oversight.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps